

**A STUDY AND INVESTIGATION OF THE
NATIONAL DEFENSE PROGRAM IN ITS
RELATION TO SMALL BUSINESS**

HEARINGS

BEFORE THE

**SELECT COMMITTEE TO CONDUCT A STUDY AND
INVESTIGATION OF THE NATIONAL DEFENSE
PROGRAM IN ITS RELATION TO SMALL
BUSINESS IN THE UNITED STATES**

HOUSE OF REPRESENTATIVES

SEVENTY-SEVENTH CONGRESS

SECOND SESSION

ON

H. Res. 294

**A RESOLUTION AUTHORIZING AN INVESTIGATION
OF THE NATIONAL DEFENSE PROGRAM IN
ITS RELATION TO SMALL BUSINESS**

REVISED

Volume I

**JANUARY 13, 14, 15, 19, 22, 23, 26, 27, FEBRUARY 6, 9, 10, 16, 19
MARCH 4, 9, 10, 16, 17, 18, 19, 20, 23, MAY 5, JULY
9, 10, 15, SEPTEMBER 24, 1942**

**Printed for the use of the Select Committee To Conduct a Study and
Investigation of the National Defense Program in Its Relation
to Small Business in the United States**



**UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1942**

**SELECT COMMITTEE TO CONDUCT A STUDY AND INVESTIGATION OF
THE NATIONAL DEFENSE PROGRAM IN ITS RELATION TO SMALL
BUSINESS IN THE UNITED STATES**

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SMALL BUSINESS IN THE UNITED STATES

TUESDAY, JANUARY 13, 1942

HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE TO CONDUCT A STUDY AND
INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM IN ITS
RELATION TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.

The committee met, in the caucus room, Old House of Representatives Office Building, at 10 o'clock a. m., Hon. Wright Patman (chairman) presiding.

The CHAIRMAN. The committee will come to order. I presume the other members will be here by the time I finish this short statement.

This hearing today is the first of extensive hearings to be conducted by Speaker Rayburn's Select Committee to Conduct a Study and Investigation of the National Defense Program in Its Relation to Small Business in the United States.

In addition to myself, the committee is composed of the Honorable Alfred L. Bulwinkle, of North Carolina; the Honorable Edward A. Kelly, of Illinois; the Honorable William J. Fitzgerald, of Connecticut; the Honorable Charles A. Halleck, of Indiana; the Honorable Leonard W. Hall, of New York; and the Honorable Walter C. Ploeser, of Missouri.

Mr. Ira Bird Kirkland, Jr., has been appointed to act as counsel for the committee.

We have been authorized and directed by House Resolution 294 to study and investigate small business problems with a view to determining whether or not the potentialities of small business in the national-defense program have been adequately developed, and if not, what factors have hindered such development; and

Whether or not adequate consideration has been given to the needs of small business engaged in nondefense activity, or engaged in the transition from nondefense to defense activity; and

Whether or not small business is being treated fairly and the public welfare properly and justly served through the allotments of valuable materials, in which there is a shortage, or in the granting of priorities or preferences in the use, sale, or purchase of these materials.

The problem we are confronted with in today's hearing is the tragic plight of 44,000 automobile dealers and their half million employees whose very economic existence is at stake by virtue of the recent Government order freezing the sale of new automobiles.

Such a problem as this is definitely within the scope of the objectives of the resolution directing the investigation. It is without question

a serious one, requiring immediate consideration by this committee and immediate action by the proper administrative authorities.

We do not have the time, nor do we wish to take the time to indulge in hindsight. We are today confronted with a reality and we intend to conduct this committee with a view to taking appropriate action upon all problems that come before us.

We shall direct our attention not to an analysis of what has happened, but to an honest effort to alleviate the impact of a blow which has struck in this particular industry, and which will inevitably be felt by other industries as the war program increases and intensifies.

The committee, of course, does not know whether it will be able to offer complete solutions to all the complicated problems which will be presented to us. We do, however, intend to give a sympathetic consideration to anyone's proposal for adequate solution.

We fully realize the many ramifications of the recent drastic administrative orders with respect to automobiles and tires. The committee knows full well, as I am sure all Members of Congress do, that these orders have already had a tremendous impact upon the lives of all the employers and employees affected, as well as upon the lives of all of those in the United States dependent upon the automobile as a necessity.

Since Pearl Harbor, the entire country has been united with but one determination: That of winning this world-wide war. All of those who have conferred with this committee as affected parties in connection with the problems before us today have convinced us beyond doubt of their unwavering patriotism and their willingness to hasten the end of this war by all effective means at the disposal of the Government. They do not, in any way, expect from the Government, any relief from their personal difficulties that would, in the least measure interfere with a victorious war effort.

The committee is deeply grateful to the many Government officials who have offered the committee all possible assistance in this difficult task of determining effective solutions to these problems. I am pleased to note that so many representatives of governmental departments are attending this hearing.

Today will be devoted to hearing the members of the National Automobile Dealers Association, and tomorrow we will hear Mr. Leon Henderson, Administrator of the Office of Price Administration, and Mr. Floyd B. Odum, Director of the Division of Contract Distribution of the Office of Production Management.

We have witnesses from great distances and the hearing has been arranged for them, but on the subsequent days we expect to give any Member of the House an opportunity to be heard before this committee, but if at this time you would care to rise and announce your appearance, it would be very appropriate and then we will proceed.

Will the Members of the House who wish to please give their names for the record, so that your appearances may be recorded. Please give your names distinctly.

(The following Members of the House noted their appearance.)

Mr. Clinton P. Anderson, New Mexico.
Mr. Homer D. Angell, Oregon.
Mr. Leslie C. Arends, Illinois.
Mr. Joseph Clark Baldwin, New York.
Mr. Graham A. Barden, North Carolina.
Mr. James M. Barnes, Illinois.
Mr. Joe B. Bates, Kentucky.
Mr. A. D. Baumhart, Jr., Ohio.
Mr. Harry P. Beam, Illinois.
Mr. Lindley Beckworth, Texas.
Mr. Alfred F. Belter, New York.
Mr. George H. Bender, Ohio.
Mr. Phillip A. Bennett, Missouri.
Mr. C. W. Bishop, Illinois.
Mr. William W. Blackney, Michigan.
Mr. Sol Bloom, New York.
Miss Frances P. Bolton, Ohio.
Mr. Herbert C. Bonner, North Carolina.
Mr. Lyle H. Boren, Oklahoma.
Mr. Fred Bradley, Michigan.
Mr. Clarence J. Brown, Georgia.
Mr. Joseph R. Bryson, South Carolina.
Mr. Frank H. Buck, California.
Mr. Usher L. Burdick, North Dakota.
Mr. W. O. Burgin, North Carolina.
Mr. John C. Butler, New York.
Mr. Gordon Canfield, New Jersey.
Mr. Pat Cannon, Missouri.
Mr. Frank Carlson, Kansas.
Mr. J. Edgar Chenoweth, Colorado.
Mr. Robert B. Chipenfield, Illinois.
Mr. J. Bayard Clark, North Carolina.
Mr. Charles R. Clason, Massachusetts.
Mr. William P. Cole, Jr., Maryland.
Mr. Harold D. Cooley, North Carolina.
Mr. Jere Cooper, Tennessee.
Mr. Oren S. Copeland, Nebraska.
Mr. John M. Costello, California.
Mr. Fudjo Cravens, Arkansas.
Mr. Fred L. Crawford, Michigan.
Mr. Edward W. Creal, Kentucky.
Mr. Frank Crowther, New York.
Mr. Carl T. Curtis, Nebraska.
Mr. Thomas D'Alessandro, Jr., Maryland.
Mr. Jacob E. Davis, Ohio.
Mr. Stephen A. Day, Illinois.
Mr. Everett M. Dirksen, Illinois.
Mr. Wesley E. Disney, Oklahoma.
Mr. George A. Doudero, Michigan.
Mr. Le Roy D. Downs, Connecticut.
Mr. Richard M. Duncan, Missouri.
Mr. Henry C. Dworshak, Idaho.
Mr. Herman P. Eberharter, Pennsylvania.
Mr. Clyde T. Ellis, Arkansas.
Mr. Charles H. Elston, Ohio.
Mr. Albert J. Engel, Michigan.
Mr. Harry L. Englebright, California.
Mr. Ivor D. Fenton, Pennsylvania.
Mr. John E. Fogarty, Rhode Island.
Mr. John H. Folger, North Carolina.
Mr. Leland M. Ford, California.
Mr. E. C. Gathings, Arkansas.

Mr. Bertrand W. Gearhart, California.
Mr. Charles L. Gerlach, Pennsylvania.
Mr. John S. Gibson, Georgia.
Mr. Fred C. Gilchrist, Iowa.
Mr. George W. Gillie, Indiana.
Mr. Albert Gore, Tennessee.
Mr. Ed Gossett, Texas.
Mr. Louis E. Graham, Pennsylvania.
Mr. Walter K. Granger, Utah.
Mr. George M. Grant, Alabama.
Mr. Lex Green, Florida.
Mr. Noble J. Gregory, Kentucky.
Mr. U. S. Guyer, Kansas.
Mr. Harry L. Haines, Pennsylvania.
Mr. Edwin Arthur Hall, New York.
Mr. Forest A. Harness, Indiana.
Mr. Winder R. Harris, Virginia.
Mr. Dow M. Harter, Ohio.
Mr. Joe Hendricks, Florida.
Mr. William E. Hess, Ohio.
Mr. Knute Hill, Washington.
Mr. Carl Hinshaw, California.
Mr. Clare E. Hoffman, Michigan.
Mr. Greg Holbrock, Ohio.
Mr. Pehr G. Holmes, Massachusetts.
Mr. John M. Houston, Kansas.
Mr. Evan Howell, Illinois.
Mr. Merlin Hull, Wisconsin.
Mr. Thomas A. Jenkins, Ohio.
Mr. John Jennings, Jr., Tennessee.
Mr. Joshua L. Johns, Wisconsin.
Mr. Luther A. Johnson, Texas.
Mr. Robert F. Jones, Ohio.
Mr. Bartel J. Jonkman, Michigan.
Mr. Robert W. Kean, New Jersey.
Mr. Frank B. Keefe, Wisconsin.
Mr. Estes Kefauver, Tennessee.
Mr. John H. Kerr, North Carolina.
Mr. J. Roland Kinzer, Pennsylvania.
Mr. Michael J. Kirwan, Ohio.
Mr. Harold Knutson, Minnesota.
Mr. Herman P. Kopplemann, Connecticut.
Mr. John C. Kunkel, Pennsylvania.
Mr. Gerald W. Landis, Indiana.
Mr. Fritz Lanham, Texas.
Mr. Clarence F. Lea, California.
Mr. Charles H. Leavy, Washington.
Mr. Lawrence Lewis, Colorado.
Mr. Louis Ludlow, Indiana.
Mr. Walter A. Lynch, New York.
Mr. Raymond S. McKeough, Illinois.
Mr. Charles F. McLaughlin, Nebraska.
Mr. Melvin J. Maas, Minnesota.
Mr. Carter Manasco, Alabama.
Mr. Thomas E. Martin, Iowa.
Mr. John A. Meyer, Maryland.
Mr. Earl C. Michener, Michigan.
Mr. A. S. Mike Monroney, Oklahoma.
Mr. Karl E. Mundt, South Dakota.
Mr. Reld F. Murray, Wisconsin.
Mr. Joseph J. O'Brien, New York.
Mr. James F. O'Connor, Montana.
Mr. James C. Oliver, Maine.
Mr. Emmet O'Neal, Kentucky.
Mr. George A. Paddock, Illinois.
Mr. Luther Patrick, Alabama.

Mr. William A. Pittenger, Minnesota.
 Mr. Charles A. Plumley, Vermont.
 Mr. Percy Priest, Tennessee.
 Mr. Jennings Randolph, West Virginia.
 Miss Jeannette Rankin, Montana.
 Mr. Daniel A. Reed, New York.
 Mr. L. Mendel Rivers, South Carolina.
 Mr. Charles R. Robertson, North Dakota.
 Mr. Robert L. Rodgers, Pennsylvania.
 Mrs. Edith Nourse Rogers, Massachusetts.
 Mr. Thomas Rolph, California.
 Mr. Dave E. Satterfield, Jr., Virginia.
 Mr. Harry Sauthoff, Wisconsin.
 Mr. Hugh D. Scott, Jr., Pennsylvania.
 Mr. Paul W. Shafer, Michigan.
 Mr. James A. Shanley, Connecticut.
 Mr. Joseph B. Shannon, Missouri.
 Mr. Robert C. F. Sikes, Florida.
 Mr. Frederick C. Smith, Ohio.
 Mr. Joe L. Smith, West Virginia.
 Mr. Martin F. Smith, Washington.
 Mr. Charles L. South, Texas.
 Mrs. Margaret Chase Smith, Maine.
 Mr. John J. Sparkman, Alabama.
 Mr. Raymond S. Springer, Indiana.
 Mr. William H. Stevenson, Wisconsin.
 Mr. William G. Stratton, Illinois.
 Mr. John B. Sullivan, Missouri.
 Miss Sumner, Illinois.
 Mr. Hatton W. Summers, Texas.
 Mr. Lewis Thill, Wisconsin.
 Mr. R. E. Thomason, Texas.
 Mr. Harve Tibbott, Pennsylvania.
 Mr. John H. Tolan, California.
 Mr. Allen T. Treadway, Massachusetts.
 Mr. John M. Vorys, Ohio.
 Mr. Francis E. Walter, Pennsylvania.
 Mr. Samuel A. Weiss, Pennsylvania.
 Mr. Richard J. Welch, California.
 Mr. Elmer H. Wene, New Jersey.
 Mr. Campton I. White, Idaho.
 Mr. Victor Wickersham, Oklahoma.
 Mr. Earl Wilson, Indiana.
 Mr. James Wolfenden, Pennsylvania.
 Mr. Charles A. Wolverton, New Jersey.
 Mr. Roy Woodruff, Michigan.
 Mr. James A. Wright, Pennsylvania.
 Mr. Oscar Youngdahl, Minnesota.
 Mr. Orville Zimmerman, Missouri.

The CHAIRMAN. Have all of the House Members indicated their presence?

Mr. WOODRUFF. May I say that Mr. Wolcott, of Michigan, would be here were it not for the fact that it is necessary for him to go to the White House this morning on a conference.

The CHAIRMAN. I know that he is in a very important conference this morning, and he could not be here.

Now, have all of the House Members indicated their appearance? I know that many Members are interested in these hearings. In fact, we had exactly 57 calls in 1 hour in my office this morning, and some of them could not be here because of other committee hearings and important appointments.

Now, how many Senators are here? I see that Senator Davis of Pennsylvania is here, Senators Connally and O'Daniel of Texas, and Senator Brooks of Illinois.

Mr. REED. Senator Mead, of New York, is engaged in another important engagement and he asked me to appear for him.

Mr. Chairman, there are several New York Members who intend to be here, who are not here, and I would like to have their names recorded.

Mr. JENKINS. Several Members from Ohio had another appointment, and they will be here later.

The CHAIRMAN. Now, those desiring to enter their appearances here should fill out a form that will be furnished to you for that purpose. We have those forms available now.

I see that Senator Murray of Montana has just come in.

Mr. GILCHRIST. I have a telegram from the Governor of Iowa saying that he is unavoidably detained, and he had expected to be here.

The CHAIRMAN. Will the associations desiring appearance forms hold up your hands? The clerk of the committee here, will be glad to accept your appearances, and they will be entered in the record.

(The following appearances were noted:)

E. R. Lerner, representing the Bureau of Employment Security, Social Security Board.

Byron A. Johnson, Jr., representing the Navy Department—Army and Navy Munitions Board.

Edward J. Rowell, Office of Agricultural Defense Relations, Department of Agriculture.

J. R. Scott, representing Chattanooga Automotive Trades Association.

Leonard G. Levenson, Bureau of Labor Statistics, Department of Labor.

Arthur C. Winegar, representing Hirsch Bros., Inc., Williamsville, N. Y.

Ward Klepfer, representing Klepfer Bros., Inc., Buffalo, N. Y.

John J. Lang, representing Bridgeport automobile dealers, Bridgeport, Conn.

Lew W. Moran, president, Pittsburgh Automobile Dealers Association, Pittsburgh, Pa.

Leslie M. Farr, representing Buffalo Automotive Trades Association, Buffalo, N. Y.

Howard N. Yates, representing Aurora Automobile Dealers Association, Aurora, Ill.

Treadwell K. Berg, representing the Empire State Automobile Merchants Association, Albany, N. Y.

P. J. Hunt, representing the Buffalo Automotive Trades Association, Buffalo, N. Y.

S. T. Atkinson, E. O. Anderson, G. L. Kevlin, and Mac Sanders, representing Charlotte Automotive Association, Charlotte, N. C.

Mr. Charles J. Haynes, Bridgeport, Conn.

Mr. Chris Weldemann, Bridgeport, Conn.

Mr. George W. Smith, Bridgeport, Conn.

The CHAIRMAN. I would also like to know if you have any prepared statements. I am not talking about the witnesses that we have for this morning, but those who are not witnesses, who have prepared statements, hold up your hands, please, that you would like to file with this hearing.

Will you bring your statements up here, please? You will also be permitted to file them later in the day. Please deliver them to Mr. Kirkland, the counsel for the committee, or to the clerk, or to me. You can also deliver them to room 114, the committee rooms.

Mr. HAINES. Some of us have some telegrams from back home that we would like to submit.

The CHAIRMAN. You may enter them in the record; that is all right.

COMMUNICATIONS

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., January 13, 1942.

HON. WRIGHT PATMAN,
Chairman, House Committee to Study Problems
of American Small Business,
Old House Office Building, Washington, D. C.

DEAR WRIGHT: Your attention is respectfully invited to the enclosed telegrams from Mr. B. E. Gridley, president, Wichita Automobile Dealers' Association, and the R. D. McKay Motor Co., both of Wichita, Kans., in which my constituents make certain recommendations concerning the distribution of automobiles.

Please make these telegrams a matter of record in the committee hearings and take into careful consideration the arguments advanced by the automobile dealers of Wichita.

Sincerely yours,

JOHN M. HOUSTON.

[Telegram]

KANSAS CITY, January 12, 1942.

HON. JOHN M. HOUSTON,
Representative from Kansas,
House Office Building, Washington, D. C.

Please represent our 45 employees at Tuesday's House committee meeting regarding possible used and new car price ceilings and car rationing. Their jobs, their earning capacity, and they are all essential to welfare of the Nation. Please express their sincere desire to cooperate 100 percent for a glorious victory but do not permit this vital industry's establishments and their employees to suffer discrimination. It is their earnest hope you do not freeze used cars or put unworkable ceilings on them. For example, all our used cars have been purchased by us based on Wichita retail prices which do not necessarily correspond to any of the so-called National Guide Books. They request, too, an early lifting of the present freeze on new cars, using December prices plus storage, interest, and insurance costs. This firm endorsed fully their opinions and their urgent request to you.

R. D. MCKAY MOTOR CO.

[Telegram]

KANSAS CITY, January 12, 1942.

Congressman JOHN M. HOUSTON,
House of Representatives, Washington, D. C.

Your assistance would be greatly appreciated by our members in the release of new automobiles and trucks at an early date on the basis of December prices and if requisitioned by Government these prices without discount to prevail. Also that freezing costs, storage, and interest be allowed dealers, and distribution be made through local dealers. Further, that no ceiling or freezing be placed on used cars since that would be ruinous to most dealers. Our hundreds of employees and their dependents and many thousands of aircraft workers in Wichita are relying on our members keeping their establishments open. This will be impossible under these conditions. We need your cooperation and ask that you attend hearing on Tuesday. Thanks for your kind consideration.

B. E. GRIDLEY.

President, Wichita Automobile Dealers Association.

[Telegram]

BELDING, MICH., January 12, 1942.

HON. FRED L. CRAWFORD,
House of Representatives, Washington, D. C.:

Understand Henderson wants used-car stocks frozen. This would be the last straw. Do everything in power to stop it.

WILLARD H. JOHNSON.

[Western Union telegram]

ST. LOUIS, MICH., January 12, 1942.

FRED L. CRAWFORD,
House of Representatives, Washington, D. C.:

We, the automobile dealers of St. Louis, Mich., appeal to you for sane judgment. Do not freeze used-car stocks. Save the automobile industry from complete destruction.

C. R. BURLINGAME,
OREN A. COCHRAN.

[Western Union telegram]

BELDING, MICH., January 12, 1942.

HON. FRED CRAWFORD,
House of Representatives, Washington, D. C.:

Understand Henderson wants used-car stocks frozen. This would be the last straw. Do everything in power to stop it.

JOE MURPHY,
FORD SALES AND SERVICE.

[Western Union telegram]

GREENVILLE, MICH., January 12, 1942.

HON. FRED CRAWFORD,
Congressman, Eighth District,
Washington, D. C.:

Please keep used-car stock liquid. Your friend,

AL KENNEDY,
STRYKER MOTOR SALES.

[Western Union telegram]

SAGINAW, MICH., January 12, 1942.

HON. FRED L. CRAWFORD,
House of Representatives, Washington, D. C.:

Freezing of used-car inventories will have most disastrous results not only to dealers but to our own company. Such dealers as we have been able to contact are terribly upset. Great majority of dealers doing business with us will be forced out of business and be unable to pay their debts. Please exert yourself to the utmost to stop this order.

H. T. ROBINSON,
President, Saginaw Financing Corporation.

[Western Union telegram]

SAGINAW, MICH., January 12, 1942.

Congressman FRED L. CRAWFORD,
House of Representatives, Washington, D. C.:

Rumor of freezing of used cars apparently serious. If this goes into effect automotive retailing industry of 44,000 dealers and 600,000 employees is ruined. Beyond this, sane rationing policy on new cars and trucks must be put into effect immediately to preserve dealer group whose job it is to keep 30,000,000 cars used for defense and civilian purposes rolling.

Am depending on you to do your part to see that Henderson handles these problems sanely. Please advise.

E. F. WIENEKE, President,
H. D. DRAPER, Secretary,
Saginaw Auto Dealers Association.

[Western Union telegram]

ALMA, MICH., January 12, 1942.

Congressman FRED L. CRAWFORD,
Washington, D. C.:

If the War Department needs our used cars they can have them at their price. If freezing would be for price control, don't all it. Used cars represent remaining livelihood in our business. Government control of both new and used cars will close our doors.

RADEMAKER MOTOR SALES, Ford.
FREDERICKSEN MOTOR SALES, Pontiac.
ART FARNSWORTH, Chrysler.
McHUGH MOTOR SALES, Olds.
SWARTHOUT-EWIE, Buick.
HICKERSON CHEV SALES, Chevrolet.

[Western Union telegram]

DES MOINES, IOWA, January 12, 1942.

Hon. FRED C. GILCHRIST,
Member of Congress, Washington, D. C.:

Regret inability to come to Washington for hearing tomorrow. Farmers' means of transporting produce from farm to market is by motor vehicle. Many farmers unable to make needed replacements in recent years will need equipment. Urge your thorough study of subject of motorized and other equipment for agriculture during period of war production.

GEORGE A. WILSON, Governor.

[Western Union telegram]

CHAMBERSBURG, PA., January 12, 1942.

Congressman HARRY L. HAINES,
210 Old House Office Building, Washington, D. C.:

Strongly urge you attend auto dealers hearing January 13, 10 a. m., caucus room. Plight of auto dealers and their employees is serious. Please give full study and exercise your best ability, helping devise plan for relief without jeopardizing defense. Freezing new cars stopped income but not expense. Dealer must have carrying cost and storage for stocks frozen. If sales are frozen and price ceilings established on used cars, situation becomes hopeless. This must be avoided. Dealers' main supply of used cars for many months will come from draftees. Freezing will discourage dealers from buying, thus draftees are denied the definite quick sale of their cars. Ceilings on used-car prices will tend to deflate values at the source which again is hurting the draftee more than anybody else. Competitive open market bidding for these cars may tend to raise the prices, but the \$21-per-month draftee will get the benefit. Price ceiling must be postponed until definite profiteering is evident. We advertised to buy used cars and today nine cars were brought to us, every one owned by a draftee. We bought none. Probable ceiling and freezing kept us from buying. Commandeering of unessential civilian cars far more practical.

H. B. SLAUGHENHAUF.

[Western Union telegram]

GETTYSBURG, PA., January 12, 1942.

Hon. HARRY L. HAINES,
Office 210, Old House Building, Washington, D. C.:

DEAR HARRY: Do your best for Adams County automobile dealers regarding new cars and trucks we have on hand. Let us sell our present stock. Please do not let them freeze our used cars. The place to freeze automobiles, trucks, batteries, and so forth, is at the factory. I am worried sick that the bank might call my loan, but if I can sell everything I have in stock, I can get along for 6 months. Best regards,

C. W. EPLEY.

TELEGRAMS BY AUTOMOBILE DEALERS SENT TO CONGRESSMAN SAMUEL A. WEISS
OF PENNSYLVANIA

- (a) Boothe Motor Co., McKeesport, Pa.
- (b) Baehr Bros., McKeesport, Pa.
- (c) Forest Hills Motor Co., Wilkinsburg, Pa.
- (d) Oakmont Auto Co., Oakmont, Pa.
- (e) John P. Mooney, McKeesport, Pa.
- (f) Crafton Motor Co., Pittsburgh, Pa.
- (g) Joseph Hoebler, Pittsburgh, Pa.
- (h) Dormont Motors, Inc., Pittsburgh, Pa.
- (i) Superior Motor Co., Braddock, Pa.
- (j) Homestead Pontiac Co., Homestead, Pa.
- (k) Temple Chevrolet Co., Pittsburgh, Pa.
- (l) William A. Beadling, president, Automobile Dealers of Turtle Creek, Pa.
- (m) Litman Bros., Braddock, Pa.
- (n) Garage Employees Local Union No. 926, Pittsburgh, Pa.
- (o) Nethling Chevrolet Co., Millvale, Pa.
- (p) Donaldson Motor Co., Pittsburgh, Pa.
- (q) Miller Chevrolet Co., Pittsburgh, Pa.
- (r) Telegrams from: J. J. Crowley, S. W. Bullard, M. T. Marovitz, K. K. Jackson, Bert Mansfield; dealers of Pittsburgh, Pa.
- (s) Liberty Chevrolet, Inc., of Pittsburgh, Pa.
- (t) Telegrams: Mr. Shoaf Carlisle, J. A. King, M. A. Liberator, W. P. Ferrette, J. P. Hoebler, Lawrence Dideon, Ralph Hoebler, Chester Smolinski; all of Allegheny County, Pa.

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
January 13, 1942.

HON. WRIGHT PATMAN,
Chairman, Select Committee on Small Business,
House of Representatives, Washington, D. C.

MY DEAR CONGRESSMAN: May I file the enclosed telegrams with your committee as a part of the testimony in your hearing today?

Sincerely yours,

JOHN LEE,
United States Senate.

(Telegrams)

BOISE CITY, OKLA., January 11, 1942.

HON. JOSH LEE,
United States Senate, Washington, D. C.:

I feel winning the war is utmost important, but with new cars froze and tires regulated and possible used cars will be froze February 1, believe we should receive some favorable consideration on the bills pending.

FOWLER MOTOR,
D. W. FOWLER.

BOISE CITY, OKLA., January 11, 1942.

HON. JOSH LEE,
United States Senate, Washington, D. C.:

Our country is strictly agricultural and is also a country of long distances; we are already hurt by regulations on new cars and tires, and I hope you will give careful consideration to bill pending upon regulation of the automobile industry.

JOHNSON MOTOR CO.,
HOMER L. JOHNSON.

CUSHING, OKLA., *January 11, 1942.*

Senator JOSH LEE,
Washington, D. C.:

We, the undersigned automobile dealers, urge you attend House of Representatives meeting Tuesday morning, 13th, and protect our interest. Thanks.

A. R. MOTOR CO. Albertson.
GAYLEY MOTOR CO., Gayley.
FORESEE MOTOR CO., Foresee.
GRIFFITH MOTOR CO., Griffith.
CUSHING MOTOR SALES, Smith.

WEWOKA, OKLA., *January 10, 1942.*

Hon. JOSH LEE,
Senator, Washington, D. C.:

If possible, please attend hearing automobile meeting House of Representatives Tuesday morning. Oil and gasoline just as important as planes and tanks. We are in heart of oil territory, and men must have tires, parts, and cars if they get oil and gasoline. Drilling operations scattered, and men shifted about over many miles to get to the job. Freezing of new cars has us on spot. Must sacrifice business built up over years if we cannot get some help.

MALLOY, DOYLE MOTOR CO.
NORTON, FORESEE MOTOR CO.
SHERRILL, PARKER MOTOR CO.
FILSON MOTOR CO.
GILLILAND MOTOR CO.

BOISE CITY, OKLA., *January 11, 1942.*

Hon. JOSH LEE,
United States Senate, Washington, D. C.:

Understand you will consider bill pertaining to the future of the automobile industry. We are interested in winning the war, but believe our industry should not be discriminated against too much.

FIVE STATES CHEVROLET CO.
CLARENCE SNAPP.

TULSA, OKLA., *January 12, 1942.*

Hon. JOSH LEE,
United States Senate, Washington, D. C.:

Proposal to freeze used-car stocks will delay completion of two large defense plants here, also will handicap both oil and farming. The writer knows personally that rubber ban will make an acute labor situation at Chateau within 30 days. Two thousand people a day from Tulsa alone riding to plant, four to six passengers per car, mostly with poor rubber. Office of Production Management is throwing monkey wrenches into defense program here.

G. Y. PARRISH, Dodge Dealer.

TULSA, OKLA., *January 12, 1942.*

Hon. JOSH LEE,
United States Senator, Washington, D. C.:

Again we appeal to you as the processes of strangulation continue upon our businesses. Press and radio reports inform us that defense agencies are contemplating freezing used-car sales. Although this measure, if adopted, may only be temporary, this, augmented with freezing new-car and tire sales, will make our annihilation complete. What can we do? Tuesday, January 13, the Senate Small Business Committee will resume hearing on matters affecting this industry. Please try to be present and voice the feeling of all the members of this industry.

Respectfully,

TULSA AUTOMOBILE DEALERS ASSOCIATION.
R. L. LEDERMAN.

JEFFERSON CITY, MO., January 12, 1942.

HON. WRIGHT PATMAN,

United States House of Representatives, Washington, D. C.:

Understand your committee meets Tuesday handling automobile restrictions. Please believe we are thoroughly in accord national-defense program. Our business outlook most precarious. Won't you consider moderations in keeping with defense program but still allow us sufficient business justify continued operation. Thanks for your past efforts.

COMMONWEALTH CHEVROLET Co.
DON RILEY.

IRON MOUNTAIN, MICH., January 12, 1942.

Representative WRIGHT PATMAN,

Washington, D. C.:

Regarding proposal to freeze and regulate used-car sales. Dealers confronted with most serious situation. We ask you try to attend sessions regarding used cars and wisely and sanely help form legislation, bearing in mind sale of used-cars parts and service may be all that will keep dealers in business and in position to serve essential transportation.

ACE BUICK MOTOR SALES.
ANDERSON MOTOR Co.
COMMUNITY MOTORS.
DEGAYNOR & KESSLER.
DICKINSON COUNTY MOTORS.
JOHNSON MOTOR SALES.
KINGSFORD MOTOR Co.
LAFRENIERE MOTOR Co.

BATTLE CREEK, MICH., January 12, 1942.

HON. WRIGHT PATMAN,

Member of Congress, House of Representatives:

We understand that the Office of Price Administration is proposing to freeze used cars on dealer lots; this would be a fatal blow to dealers because it would freeze assets which can be made liquid to pay taxes and keep service departments going. This proposal if carried through would close many service departments needed to keep men and materials moving to defense jobs. We will cooperate to the limit but see no reason why we should be forced out of business

BATTLE CREEK AUTO DEALERS ASSOCIATION.

MINNEAPOLIS, MINN., January 12, 1942.

Congressman WRIGHT PATMAN,

House Office Building, Washington, D. C.:

Conditions are the same in Minnesota as in other States. Dealers will have to close doors if rationing restrictions are too severe. There will be one-half million people out of jobs. Must be able to sell cars on hand to public or back to Government at fair profit. Impossible to stay in business by selling to limited market. Want release on orders taken prior to January 1st. Need immediate help.

WHITCOMB & BLICK,
R. L. WHITCOMB,
Minneapolis' Oldest Pontiac Dealer.

BLOOMFIELD, N. J., January 12, 1942.

Representative WRIGHT PATMAN,

Washington, D. C.

DEAR SIR: I am an automobile salesman born August 2, 1887—that makes me 55 this coming August. I started in the automobile line in 1908. Now am I

going to continue to make a living selling automobiles or must I take a furnished room and get a job as a night watchman to support my wife? The Army is now taking my son; I must do something right away as I am getting down to my last dollar and don't want charity. Can you tell me if we can at least continue to sell used cars?

Thanking you in advance for my troubling you, I am
Gratefully yours,

J. H. RUSSELL.

CHAMBER OF COMMERCE,
Austin, Tex., January 9, 1942.

Hon. WRIGHT PATMAN,
House Office Building, Washington, D. C.

DEAR MR. PATMAN: We are voicing the sentiment of the 600 members of the Austin Chamber of Commerce against the too drastic regulations which affect tire and car dealers. Unless modified within the near future, these regulations will destroy many times more than the value of frozen inventories of tires, cars, and trucks. Thousands of small business establishments will of necessity cease operating, and many times that number of employees will be thrown out of all employment.

These drastic regulations are seriously affecting various forms of taxes and are retarding the sales of defense stamps and bonds and will sharply retard defense production by wasting an enormous number of man-hours.

Too drastic regulations affecting car, truck, and tire dealers will throw out of employment employees of insurance and finance companies. Possible destruction of the morale of these dealers and their employees may react unfavorably in this country and thus pave the way for serious "fifth columnist" activities.

While three groups—large contractors, manufacturers, and industrial labor—are growing rich out of defense activities, little business, which represents the backbone of the Nation and the principal taxpaying sources, is being relentlessly crushed. All small business is now paying and will pay a tremendous price in their patriotic support of our defense program, and this they are perfectly willing to do, but we feel that they should not be required to carry all the burden while the manufacturer, contractor, and industrial labor grow rich.

We offer this practical solution. If tire manufacturers will be required to make enough reclaimed tires for equal distribution to their dealers, this would keep their business going and would not affect the rubber-conservation program in this country. Also, automobile manufacturers should be required to make enough replacement parts to keep their dealers' repair shops going. This plan would keep old cars operating and would not affect the many branches of tax revenue. The use of reclaimed tires would necessarily reduce speed limits on highways to 35 to 40 miles per hour, thus reducing tremendously the number of accidents and destruction of property and life which is a large factor in this country. In addition, manufacturers should be allocated enough rubber to supply tire recapping and retreading shops. New inner tubes should be produced by the manufacturer on a restricted basis. Instead of arbitrary, visionary, and capricious regulations, we feel that those in authority should be able to select those services and functions in all branches necessary to be carried on rather than totally to exempt any form of large-scale wholesale distribution and other activities totally unrelated to defense, public health, or public safety.

Yours respectfully,

T. B. WARDEN, *President.*

THE DANIA PRESS,
Dania, Fla., December 17, 1941.

Hon. PAT CANNON,
Member of Congress from Florida,
Washington, D. C.

DEAR SIR: Since the movement for the defense of the United States started more than 1 year ago, there has been a certain measure of uncertainty among many smaller business concerns.

Our weekly newspaper, the Dania Press, has cooperated in every possible way to encourage our people to take a greater interest in this matter of defense. We would rejoice with thousands of others to see that our country was ready to meet any attack from any source and in any manner made upon us.

We happen to be running a business that is so small that it is doubtful if it could even expect to receive consideration at a time like this. The fact that we can do our own labor with our own hands makes it possible for us to keep running along (so far). Having reached the sixty's in the matter of age, we have little hope of employment should our business go on the rocks.

It is getting more difficult to secure material. The material we use is fine papers, inks, etc., for newspaper and job printing. If we could find some way which would serve our country better than running a weekly paper and doing job printing and encouraging our friends and neighbors to keep their chins in the air during this time of doubts and fears we would gladly change our work.

But we are wondering, if it comes to a point where really small concerns, like ours, on which it seems our existence is dependent, are to be deprived of stocks, as is hinted by some people, where will there be any economy in such a step? Somebody will have to help take care of those dependent on such business. Who except the "guyment" can do it?

Then it would not be a matter of economy.

While there is no immediate threat the air is full of crackpot ideas about cutting out this and that until we all commence to wonder what will be suggested next? And who is competent to decide what businesses are necessary and what businesses are unnecessary?

Paper salesmen and many others are telling us their stocks are running low, that they may not be able to furnish us with our needs in this line for any definite period. This can have but one effect. It frightens those who have the money and credit into buying more than they need at this time thus running the price up by creating an extra demand. It frightens those of us who have not the means to take advantage of a supposed shortage into a fear that we might have to shut our shops sooner or later. Under such a condition we cannot give the service we would like to give.

Big orders to big business are all well enough and good. But we should not lose sight of the fact that in times of peace small business is the feeder for big business and that in fact small business is the bulwark foundation of our commerce. If small business is sacrificed now for big business with big orders then where are the taxes to come from?

Don't you think it might be a good idea for Congress to investigate this matter and see that the small business concerns are not altogether choked out under the pressure of "needing all supplies for defense"?

A little assurance of this kind from our Government would increase the morale and make us more and more determined to win the great battle laid out for us.

I know you are a busy man now, but this is one part of the work of a man in your place that should receive attention and I believe it will.

I am sending our two United States Senators carbon copies of this letter.

If you think it worth while place it before the proper committees or officers for consideration.

If not, there is nothing lost but a little time, and that isn't worth very much with us yet—in dollars and cents.

Yours for victory in the world conflict,

RAYS D. CAYHER,
Editor, *The Danta Press, Danta, Florida.*

(Telegrams)

ROCKY MOUNT, N. C., January 12, 1942.

Congressman JOHN H. KERR,
Washington, D. C.:

Please attend House Small Business Affairs Committee meeting Tuesday morning. Do all on your power to help the automobile dealers who are virtually being thrown into bankruptcy.

DAVID W. DAVENPORT,
Davenport Motor Co.

MIAMI, FLA., December 20, 1941.

Congressman PAT CANNON,
Washington, D. O.

DEAR MR. CANNON: Now that the Government is adjusting itself to a war policy a great many businessmen are going to be forced to give up business with no means of earning power.

A great many of these people have houses with mortgages on them either in the Federal Housing Authority or Home Owners Loan Corporation.

Something should be done at once to relieve the pressure on these loans so the people will not lose their houses.

What do you think about it, and what can be done—would like to know.

Yours very truly,

ALBERT LANG.

TEXARKANA, TEX., January 7, 1942.

Hon. WRIGHT PATMAN,
House of Representatives, Washington, D. O.

DEAR MR. PATMAN: The automobile manufacturers of the United States, through cooperation with Office of Production Management, have discontinued manufacture of automobiles. This condition will cause many automobile dealers to go out of business.

A great many automobile dealers in the United States were unfortunate enough to have their leases expire since the lease-lend bill was passed by our Congress. Passage of this bill seemed to crystallize in the minds of the landlords of the country the fact that there would be tremendous spending and great prosperity. As a consequence, dealers were forced to pay advances ranging from 25 to 75 percent for new leases. Without new cars, few of these dealers can exist.

I respectfully suggest that our Government proceed with the necessary measures to declare a moratorium on such leases, in cases where dealers are forced out of business.

Sincerely yours,

DOVE MOTOR CO.
ROBERT E. DOVER, President.

[Telegram]

WASHINGTON, D. C., January 7, 1942.

Hon. WRIGHT PATMAN,
House Office Building, Washington, D. O.:

Will you kindly, on behalf of the independent tire dealers in your State and the other States, at your committee meeting, Thursday as to national defense in relation to small business, petition Mr. Leon Henderson, Office of Price Administration, that he, Mr. Henderson, ease his rationing order on tires and tubes so that the independent tire dealers may be permitted to sell their stock of tires and tubes on hand in their respective places of business, for example, all size tires and tubes for car of 1936 construction or earlier manufacture. All actual orders sold by the dealer and paid for by the user prior to December 1 that the dealer be permitted to deliver the customer's property. If above would be denied by the Office of Price Administration, the Office of Price Administration permit the dealer to dispose of his stocks on hand on a percentage monthly rationing plan. At present rationing plan, it would take the average dealer to dispose of his stocks from 2 to 10 years, and at which time, the services from the merchandise would be greatly reduced or be worthless. If the independent tire dealer is to stay in business, which he should, due to the valued service he can render to the Government and in national defense, then your committee should recommend to Treasury Department some relief for the independent in the payment of their income tax for 1942, due to fact their business frozen due to Government action December 11, 1941. Dealers look to your committee for immediate help.

GEORGE J. BURGER.

[Telegram]

ROCKY MOUNT, N. C., January 11, 1942.

Congressman JOHN H. KERR,
Washington, D. C.:

Our group necessarily hard hit; capital structure will be wiped out or impaired beyond recovery. Employees and sales force face unemployment. Please attend House Small Business Affairs Committee meeting Tuesday morning and add your knowledge and efforts to some plan of cushioning shock to prevent complete knock-out of our business.

EDWARDS CUTCHIN MOTOR CO.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE MERCHANT MARINE AND FISHERIES,
Washington, D. C., January 12, 1942.

HON. WRIGHT PATMAN,

Chairman, Select Committee to Conduct a Study and Investigation of the National Defense Program in Its Relation to Small Business in the United States, House of Representatives.

DEAR MR. PATMAN: I am very much interested in the effort to secure some relief for the automobile sales agencies and similar activities which are very seriously affected by reason of the embargo that has been placed on automobile construction and sales.

I sincerely trust that it may be possible to work out something in their interest, and I have told them that every consideration will be given their problems by your committee. I had been asked to be present, but I am unable to attend the hearings by reason of a session of my own committee.

Yours very sincerely,

S. O. BLAND.

TESTIMONY OF JOHN F. FORBIE, RETAIL AUTOMOBILE DEALER OF WILMINGTON, DEL.

I have on hand 100 new cars at a retail value of approximately \$240,000. We have about 125 employees. All of us want to do our part even to the utmost in the great defense plan our President has so clearly set forth in his speech to the Congress, and we will give to our utmost in strength and money to carry on this work; but we can only do this if we keep going so that we will have clear minds to carry on.

We can give when we work, but idle business is a disaster in itself—a breeding ground of despondency. In the country at large 44,000 dealers and 500,000 employees will be reduced to a state of inefficiency and uselessness.

This huge army will quickly be put out of commission.

We will be without liquid funds to pay our income taxes and in many cases will soon be without funds for the very necessities of life.

We have certain inescapable overhead items, such as rent, storage charges, taxes, interest, and the necessary expenses of keeping our stock of new cars in condition, such as recharging batteries to prevent freezing and deterioration, running cars occasionally while in storage to prevent gumming and rusting of engine valves and cylinder walls, and many other things.

Tires will deteriorate rapidly unless cars are blocked up and kept off the ground. Vital rubber will be lost.

One-half a billion dollars of new cars at cost are frozen and will deteriorate rapidly if not in use.

We just can't be frozen and live.

The effect on our business is the same as if you were to tie up the bank accounts of the individual citizen and he could not draw money from the bank to pay his living expenses.

This could not be done, because it would destroy life itself.

Only dire necessity compels us so to speak.

We must live; we must act; all citizens must carry on if democracy is to live. Let us liquidate our stock of cars and trucks and secure funds to carry on in a better and a more useful way.

Then with the decks cleared this huge army of dealers and employees will be available for active defense work. Our shops can take on defense work; our funds will be working funds for democracy; we can pay our income taxes; our mind and energy will be released to work.

We can be resourceful if the frozen shackles are removed.

Shall it be said that the retail automobile dealer must perish?

HOUSE OF REPRESENTATIVES,
Washington, D. C., January 13, 1942.

HON. WRIGHT PATMAN,
Chairman, Small Business Committee, Washington, D. C.

MY DEAR COLLEAGUE: I wish to submit the resolution of the Dayton, Ohio, Automobile Dealers Association for incorporation into the record of your hearings. When you have finished with this resolution, will you kindly return it to me? Thank you for your courtesy.

Sincerely yours,

GREG HOLBROCK,
Member of Congress.

RESOLUTION

Whereas the House of Representatives will, on January 13, 1942, through a special committee, consider the plight of the retail automobile dealers; and

Whereas the automobile manufacturers have already been assured of relief, even though no new cars will be manufactured, through Government contracts to produce arms equipment; and

Whereas the retail automobile dealers throughout the country have long served their communities well and gainfully employed thousands of men and women; and

Whereas these dealers have an investment of thousands of dollars in each individual instance: Be it therefore

Resolved, That we, the undersigned group of dealers, who represent 85 percent of the retail auto sales in Dayton, Ohio, do hereby request the cooperation of our Representatives in doing everything possible to work out a solution which will alleviate the condition which, if permitted, will force us out of business and therein cause serious financial as well as an employment problem, and we specifically ask that used-car stocks be left in the hands of the dealers and not frozen, as such would be disastrous.

The Barlow Motor Car Co., H. M. Newell; Borchers Auto Co., C. A. Stenger; Gillam Motors, Inc., C. A. Gillam; Ray Simons, Inc., Ray Simons; J. B. Hilgefurd Auto Sales, L. B. Hilgefurd; Cooper & Jackson Co., Dallas F. Cooper; T. D. and P. A. Peffley, Inc., T. D. Peffley; The Rodgers Pontiac Co., R. J. Rodgers; Dayton Buick Co., S. H. Hoerner; Burns Auto Co., S. J. Burns; The S-W-S Chevrolet Co., A. D. Shenaborgh; The Central Motor Sales Co., R. S. Waitsee.

HOUSE OF REPRESENTATIVES,
Washington, D. C., January 10, 1942.

HON. WRIGHT PATMAN,
Chairman, Special Committee to Investigate National Defense,
114 House Office Building, Washington, D. C.

DEAR MR. CHAIRMAN: Attached hereto find telegram received by me from the Pennsylvania Commercial Conference with reference to the recent tire-rationing order.

I am transmitting it for the consideration of your committee members in connection with their study of the subject.

Very sincerely,

JOHN C. KUNKEL, M. C.

HARRISBURG, PA., January 7, 1942.

Hon. JOHN CRAIN KUNKEL,
House Office Building, Washington, D. C.:

On behalf of the 75,000 members of the Pennsylvania Drivers Conference, consisting of 57 Pennsylvania local unions affiliated with the International Brotherhood of Teamsters, Chauffeurs, Warehousemen, and Helpers of America, American Federation of Labor, I wish to urge thorough study and investigation of the recent tire-rationing order. The rationing of commercial tires as presently ordered will result in unemployment to at least 100,000 drivers and will deprive millions of our civilian population of services essential to their morale, health, and welfare. This will directly affect thousands of drivers in this State and a large portion of Pennsylvania's civilian populace. With millions of nonessential private cars operating on our streets at a tremendous economic cost, including the useless consumption of valuable rubber, persons dependent upon the vital milk, bread, laundry, and taxi industries are at a loss to understand the reason or justice of the present tire-rationing order. We urge a careful investigation into the necessity of the order and feel that a study which would determine the proper allocation of all tires to activities in the order of their relative importance to society at a whole would serve the best interests of our entire country in these times. The proper distribution of food is, in our opinion, an imperative necessity.

Pledging you our undeviating support in the common cause of victory.

JAMES FLAHERTY,
Secretary, Pennsylvania Commercial
Drivers Conference, 29 South Third Street, Harrisburg.

[Telegram]

Hon. THOMAS ROLPH,
House of Representatives, Washington, D. C.:

I wish to protest against the entirely unsympathetic and unreasonable approach to the automobile dealers predicament. We are all sitting here with long leases and overheads that we have been trying to cut enough to maintain our business. We will pay all working capital for income tax next March, including payment on reserves, etc., which will not now materialize. Hear rumors of freezing used cars. With the millions of used cars on hand why in the name of common sense should that be necessary? There will be thousands of used cars offered for sale by individuals to private parties, and dealers suggest emphatically that the present hysteria, and determined apparent effort to bankrupt the dealers who have their whole life's effort tied up in their business be stopped. Why not meet the shortage when and if it comes and not create destruction of so many businesses unnecessarily. I respectfully suggest that in the war of nerves I have yet to see anything to equal the past 30 days for the automobile dealers. Finally, besides paying all my actual income in tax, I feel entirely willing to do everything to win this war. Will you please tell me how breaking all the dealers is going to put them in position to help out in any way?

J. A. HUBBARD.

[Telegram]

Representative THOMAS ROLPH:

If possible, will you please attend House committee hearing on automobile industry to be held tomorrow, Tuesday morning at 10 o'clock in large caucus room of Old House Office Building and use your best efforts to prevent freezing of used cars? These are very lifeblood of automobile dealers at this time and if frozen would practically ruin most dealers and their 30,000 employees. Best regards.

MOTOR CAR DEALERS' ASSOCIATION OF SAN FRANCISCO, INC.,
GLEN C. STATER.

FORT WORTH, TEX., January 13, 1942.

Hon. FRITZ LANHAM,
U. S. House of Representatives,
Washington.

DEAR FRITZ: I know you have far more weighty matters to bother with than those mentioned in this letter; so all I'm asking is that you pass it on to the chief man of your committee looking after such—I believe the committee on small business.

I have been close to the retail automobile business for 25 years, my only brother having been engaged in it during that time, and for the past 12 years have been financially interested and more or less actively engaged in it myself. Earle North, of Houston, Bert Honea, general manager of the Star-Telegram, and I own the Earle North Buick Co. at Houston, one of the largest single Buick agencies in the country.

We know, of course, that nothing should or can be permitted to interfere with war production. Whatever the sacrifice, we must all make it, and it will be cheap at the price. But I'm confident that you and every other Member of Congress wants to achieve the maximum of war production with the minimum of dislocation and hardship. I know of none who wishes to see the 43,000 automobile dealers in the United States, with their approximately 701,000 employees, thrown out of business overnight, if it can be prevented. This letter is written with the hope that there may be found a way to save them without interference with war production.

These dealers have fair-sized establishments, most of them long-time leases at substantial rentals, a large number of employees, such as salesmen, who cannot readily find employment in defense industries.

I believe it is true that 1941 probably was the best year the dealers have had since 1929; but, after some disastrous and many poor years, few if any are financially strong. It was due to an unusual demand for new cars, the curtailment of production in the fall, and a reduction, without the usual heavy loss, in used car stock. I think the year's showing was largely the result of improved conditions of the last quarter or half year.

The factories are making automobiles in January. It might be possible that if the dealers were permitted to sell these cars at the prices prevailing in 1941 they could weather the storm for many months and have time to make further adjustments that might possibly keep them in business.

As an illustration, we sold 1,223 new cars in Houston last year, a little better than 100 a month. If we could get 20 cars a month, we might be able to stay in business, if the service volume held up, and, if not, have a few months in which to liquidate used car stock and make further adjustments. This would be about 15 percent of last year's volume.

You hear and read so many conflicting reports that the more you hear and read the more confused you become. I have heard that the factories have on hand, in various stages of processing, enough material for a considerable output in February, and this material, because of its processing, cannot be used for defense work. I have also heard that it will take the factories several weeks or months to retool for defense work, and it might be possible for them to run another few weeks on automobiles without in any wise affecting defense production, since the materials involved couldn't be used in defense, and the machines for strictly defense production wouldn't be ready. Of course as to the accuracy of these reports, I cannot say.

I have also read some reports that when rationing begins prices lower than those prevailing in 1941 will be set. A lower price would be unfair and work further hardship. It would be unfair because the car sales volume, at best, can be but a fraction of 1941 and far below that of any normal year. Service business is certain to grow less, not more, despite the fact that with fewer new cars people naturally will spend more on servicing the old. But service comes from use. Rationing of tires will cause less driving and consequently there will be less need for service. The dealer, therefore, will get hit both ways: little new car business and dwindling service business.

I have also read one suggestion that when restrictions are lifted the armed forces and defense organizations be permitted to buy their cars through local dealers at established prices. The usual dealer's discount is between 2 and 25 percent, but in normal years, after deducting used-car losses—actual losses

between cost of the used car and its sale price and the cost of operating the used-car department—any dealer who earned 6 percent on the invoice price of his new car was making an ideal profit. Few, to my knowledge, did. However, there would be few if any used cars involved in sales to the Government and defense units, and it might be possible to set two prices—one to private individuals permitted to buy cars, another to Government and defense purchases; the normal price to the former, a lower price to the latter if no trade-in were involved. This would enable the dealers to keep in business and would involve little increase in cost to the Government above buying direct from the factory.

The problem is not only serious for the dealers but for communities and the employees. I think there are 43 large automobile retail establishments in Houston; there are approximately 20 here. These figures don't include strictly second-hand dealers or used-car lots, but the total employment involved is considerable.

Our original investment in Houston was \$280,000. We lost approximately \$200,000 of it in 1933, through inability of people who had purchased cars on time to pay for them. We have been beating back ever since—its net worth now is \$170,000—and now we are confronted with the prospect of being put out of business overnight. Up to the middle of the summer we were working 68 salesmen; we have 12 now.

If there is any chance of staying in business and salvaging any of our investment without interfering with war production, we naturally want to do it. If there isn't, we'll just have to take it and make the best of it.

Sincerely yours,

J. M. NORTH, Jr.

NEW YORK, N. Y., January 13, 1942.

Representative PATMAN,
House Small Business Committee,
Washington, D. C.

DEAR SIR: As a dealer engaged in the retail automobile industry for 27 years, I suggest the following solutions for the problem facing the automobile dealers throughout this country, due to the freezing order on the sale of new cars.

Let each dealer submit an inventory of all new cars on hand to some central governmental agency. The Government should have 30 days within which to decide whether the Government wishes to purchase any of these cars. Any car that the Government does not purchase within 30 days, the dealer should be permitted to sell in the usual manner. This would permit the Government to acquire such cars as are required for governmental use and at the same time permit the sale of cars which are not required by the Government.

If, however, the Government is not in a position to determine this matter within 30 days, then I suggest that the Reconstruction Finance Corporation, or one of its subsidiary companies, purchase all of the new cars from the dealers. This Government corporation would then hold the cars, giving first preference to the Government and selling the remainder of the cars to doctors, nurses, etc.

Either of these plans would give the Government the first call on new automobiles and at the same time permit a sale to the public of those automobiles which are not required for Government use.

If I can be of any further service to you in the development of either of these plans, please do not hesitate to call upon me.

Very truly yours,

DATES CREVOLETT, CORPORATION,
EDWARD E. BATES, President.

(The following telegrams were sent to Senator Scott W. Lucas and submitted to the committee:)

Hill Motor Sales Co., Oak Park, Ill.
C. W. Marquardt Co., Chicago, Ill.
Paul B. Smithson, Chicago, Ill.
And Motor Sales, Inc., Chicago.
MacLeod Motors, Inc., Chicago.
Grosinger Motor Sales, Chicago.
LaSalle Erie Motor Sales, Chicago.

Martin Roberts Co., Chicago.
 Tourists Motor Sales, Chicago.
 Chicago Oakley Motor Sales, Chicago.
 Charles J. Beranek, Berwyn, Ill.
 James Levy Motors Co., Chicago.
 M. H. Ratner, Chicago.
 Hydepark Chevrolet Garage, Inc., Chicago.
 Roseland Auto Sales Co., Chicago.
 George C. Poole, Inc., Arlington Heights, Ill.
 Parkway Auto Sales, Cicero, Ill.
 Litsinger Motor Co., Chicago, Ill.
 Rowe, Young & Cooley, Chicago, Ill.
 Caley Bros., Chicago.
 Andrew H. Renzas, Melrose Park, Ill.
 Hablich Bros. Motor Sales, Blue Island, Ill.
 Midway Chevrolet Co., Chicago.
 Van Hattem Motor Sales, Chicago.
 Capital Motor Sales, Inc., Chicago.
 Frank Marchese, Chicago.
 Hebert Morgan Motor Sales, Inc., Chicago.
 Keystone Chevrolet Co., Chicago.
 Fashion Automobile Sales Co., Chicago.
 South Shore Buick, Inc., Chicago.
 Nieburger Chevrolet Co., Chicago.
 Carl D. Duffel, Chicago.
 Joliet Auto Dealers Association, Joliet, Ill.
 Montgomery Motor Sales, Chicago.
 Franklin Weber Motors, Chicago.
 Placko Motors, Chicago.
 Howe Bros., Chicago.
 Selp Chevrolet Sales, Chicago.
 Gerwig Nelson Motors, Inc., Chicago.
 Belleville Automobile Dealers, Belleville, Ill.
 J. D. Levin, Chicago.
 Light Motors of Hinsdale, Chicago.
 Robertson Buick Co., Chicago.
 Warner Pontiac Sales, Chicago.
 James F. Goodwin, Inc., Chicago.
 Busse Motor Sales, Mt. Pleasant, Ill.
 Wehman Motor Sales, Inc., Chicago.
 Southtown Motors, Chicago.
 Harold Landy Motor Sales, Chicago.
 Division Chevrolet Sales, Chicago.
 Norman C. Towne, Inc., Chicago.
 Drije Motor Sales, Berwyn, Ill.
 Auto Mart, Chicago.
 Chicago Automobile Trade Association, Chicago.
 McInerney Chevrolet, Chicago.

(Telegrams sent to Senator Sheridan Downey and submitted to committee:)

City Chevrolet Co., San Diego, Calif.	H. A. MacDonald, Fresno, Calif.
Automobile Dealers Association, San Pedro, Calif.	Vincent E. Wood, Santa Barbara, Calif.
C. A. Gray, San Diego, Calif.	Phillip L. Boyd, Palm Springs, Calif.
O. R. Haan, Santa Ana, Calif.	Young Johnson Co., Long Beach, Calif.

(Communications were received by the committee from the following:)

J. Harvey Russell, Bloomfield, N. J.	Lamar Chevrolet Co., Paris, Tex.
Don C. McVay, Trenton, Mo.	E. M. Crouch, Meadville, Pa.
A. E. Norman, Chillicothe, Mo.	J. B. Caldwell, Paris, Tex.
Knoxville Automobile Dealers' Association, Knoxville, Tenn.	Caldwell Motor Co., Paris, Tex.

Telegram, addressed to Congressman John M. Houston, from the Price Auto Service Co., Wichita, Kans.

Letters, addressed to Congressman Anton J. Johnston, from Mr. W. J. Piggott and Mr. K. P. Popplewell, both of Rock Island, Ill.

Letter, addressed to Congressman Charles A. Eaton, from A. G. Swan, Dover, N. J.

Letter, addressed to Congressman John Cochran, from J. H. Heldel, St. Louis, Mo.

Letter, addressed to Congressman John C. Kunkel, from Howard Gringlich, Lebanon, Pa.

Letter, addressed to Governor Carr, of Colorado, and referred to committee by Senator Milliken, from F. C. Cullen, Denver, Colo.

Letter from Noonan Motor Co., Sioux City, Iowa.

The CHAIRMAN. The first witness this morning that we have scheduled is Mr. L. Clare Cargile, incidentally of my home town, Texarkana, the president of the National Automobile Dealers Association, and he will discuss the general outline of the major problems facing the trade.

After we have Mr. Cargile, we have Mr. Castles, of St. Louis, and Mr. Center, of Springfield, Mass., and Mr. Stanley Horner, of Washington, and Mr. Dingeman, of California, and Mr. Kelly, of North Dakota, and Mr. Goodin, of Huntington, Ind., and Mr. Mallon, of Newark, N. J. Now, each one of these witnesses will cover a separate and distinct field from the field covered by the other witnesses. I think the program has been well gotten up.

I wonder if it would be all right with the committee members that we have these witnesses come around and let us divide the time, and have them present their statements first, and then after they have presented their formal statements then have cross-examination by the committee members. Will that be satisfactory? All right, Mr. Cargile. [Applause.]

Mr. CHAMBERLAIN. I would like to request permission that I be permitted to present the statement of Mr. Cargile, because Mr. Cargile has been called to a conference of O. P. A. this morning. I would like to read his presentation.

My name is Ray Chamberlain, and I am the executive vice president of the National Automobile Dealers Association.

The CHAIRMAN. Is that agreeable with the committee members?

Mr. KIRKLAND. Will Mr. Cargile be available later?

Mr. CHAMBERLAIN. We expect him to come later.

The CHAIRMAN. He will be available for cross-examination?

Mr. CHAMBERLAIN. Yes, sir.

The CHAIRMAN. Without objection, you will be permitted to present the statement of Mr. Cargile. However, I think it would be well since Mr. Cargile is coming to start with the others and have Mr. Cargile when he comes.

Mr. CHAMBERLAIN. The only reason I wanted to present it this way is to lay a foundation.

The CHAIRMAN. All right, the gentleman is recognized. Go ahead.

**STATEMENT OF L. CLARE CARGILE, PRESIDENT OF THE NATIONAL
AUTOMOBILE DEALERS ASSOCIATION**

Mr. CHAMBERLAIN (reading):

I shall present to you in a brief form the tragic plight of the automobile dealers, who constitute one of the major groups of the great body of Americans in whom this committee is interested, the small businessmen. Their plight is tragic because their means of livelihood has been removed in one fell swoop.

We do not come before you today for the purpose of protesting the order stopping the production and freezing the sale of cars and trucks, because we too are ready to render any necessary sacrifice and we too rejoice in the knowledge that all America now stands united in the determination that this war shall be prosecuted to a glorious victory.

We, as aggressive men who know our business, say to you without fear of contradiction that the automobile retailing business has by these orders received its death sentence, unless a measure of relief is afforded by a sympathetic method of distributing those cars now frozen or to be produced in January, or unless later information reveals that a few cars can be made without impairing to the slightest degree the armament program. We shall refuse any succor which might be offered if it should require so much as 1 ounce of critical material necessary to the armament program. [Applause.]

The automobile dealers of America are typical small businessmen. There are 44,000 of them. They are situated throughout the breadth of the Nation. They have a half million employees and uncounted dependents. Many of them are located in small towns and in agricultural sections where no other employment is to be had. The plight of the salesmen in particular presents a sad prospect. The average automobile salesman came into this business as it was just emerging from its infancy. He came fresh from his experiences in the First World War. In this business he has found support for his family and happiness and contentment, and now he is too old to find employment in the new defense industries and there is no place for him to go.

The automobile dealers of America have served their Nation well. They have made possible the building of great manufacturing establishments which will be soon turned wholly to the direct service of the Nation in the vast program of armament building. They have also served as channels of distribution through which the products of these manufacturers could most economically reach the public. If these channels of distribution be destroyed, then when we return to prosperity after the cessation of the war, who is going to distribute their products in order that the experience of 1933-34 when the automobile industry had such an important part in leading the way out of the depression may be repeated?

But of greater importance than this is the fact that the automobile dealers of America have served by adequately maintaining the 33,000,000 cars and trucks upon the streets, highways, and roads of the country. The automobile dealer cannot survive with the income of his shop alone and if he is forced into insolvency and rendered unable to service the vehicles of his community, then chaos will result, because this Nation is geared to the wheel and it shall profit no one if cars are rationed or distributed according to governmental plan but yet cannot render their normal service because of the lack of facilities.

I do not wish to appear to appeal to your sympathies unduly but merely by way of contrast may I present to you the situations of the two segments of the automobile industry. The manufacturers and their employees have received much attention from Government, the dealers and their employees but little. There are only a few manufacturers with some half million employees gathered together in a few communities; there are 44,000 dealers located in every town and city of the Nation and they too have a half million employees. Accurate figures are not available as to capital investment but such as we have been able to secure indicates that the total investment of dealers is about parallel to that of the manufacturers, but picture if you will the great contrast in their outlooks. The automobile dealer is faced with ruin and their employees with idleness, whereas, the manufacturers are the recipients of Government contracts amounting to billions of dollars, with assured profits.

We find no fault with the situation of the manufacturer but we would present the contrast between his position and that of his dealers. Striking

contrast might be had from the following. Within the few days which have elapsed since the freezing order was issued dealers in all sections of the country have discharged their employees and have started in to liquidate their businesses, whereas, the average closing prices of seven motor-car manufacturers' stocks listed on the New York Stock Exchange has increased from December 23 to January 5 by 16.7 percent.

Some of my associates desire your permission to present their specific situations which have been brought about by reason of these orders and I respectfully request that you permit them to be heard in the order suggested in a memorandum we have handed to the chairman. Before I do so may I present to you some of the specific points in which we wish to secure relief together with some brief explanatory remarks on them.

1. That the Government shall permit the delivery of all bona fide orders dated prior to January 1, 1942.

Many buyers are accustomed to placing orders for delivery January 1, for the purpose of accounting and in some States the licensing laws and the compulsory insurance laws render definite benefits to buyers accepting delivery after January 1. The number of orders affected by this condition is small but certainly much confusion and irritation has risen because of the inability of the dealers to make delivery. We would submit to you that equities of both parties are deserving of consideration.

2. That if prices on new cars are frozen, then one of the formulas proposed by the Office of Price Administration at the meeting of the panel, December 1, 1941, or the formula later devised by the Office of Price Administration providing for a 4 percent handling charge and 16½ percent of freight mark-up be used. We also submit the special situation of dealers who have large investments in freight.

On December 1, 1941, Office of Price Administration assembled a panel of 82 dealers of their selection to whom they presented two formulas. They stated that either one of these would successfully control inflation. We are advised that they later devised a compromise formula between the two. Inasmuch as Office of Price Administration has officially announced that any one of these formula will successfully attain their objective of controlling inflation, we suggest that full regard should be given to the special situation of those dealers located far from factories who have large investments in freight.

3. That if any ceiling be placed on used cars, full regard may be had for the above statements and that the prices determined upon may enable the dealer to retrieve a fair return for handling.

There is a possibility that some dealers may be able to survive longer and thus render needed service to motor vehicles if the ceilings can be placed high enough to encourage some trading in used cars. A liberal ceiling would also enable such dealers as find it necessary to more easily liquidate their present stocks, which in some cases furnish the only source for the steady inflow of cash which is necessary for the maintenance of a business. It is also clear that in the cases of many dealers, the liquidation of used cars furnishes the only opportunity for securing cash with which to pay income tax due March 15.

4. That all automobiles and trucks produced, except those designed especially for military service, be handled through dealers regardless of their ultimate destination.

This paragraph has reference to the inference made by a high governmental official that some vehicles would be handled directly from manufacturer to Government. We submit that all motor vehicles should be handled through dealers. It has been indicated that it might be the plan of those designated to handle the rationing order that in the distribution of cars and trucks there would be a distinction between those vehicles on hand in dealers' stocks on the date the freezing order was issued and those which were shipped early in January on the one hand, and those shipped after a certain date in January on the other hand. The latter were to be merely stored for the Government by the dealer. We protest this method of handling as being inequitable because it is our contention that there is ample precedence for the position that every car and truck to be manufactured should be shipped by the dealer and should be sold by him at the regular retail price. In discussion of this feature there has been some mention by Government officials of the term "normal channel of

distribution." The normal channel has been for the Government or other fleet owners of the company to use their bargaining power to force dealers to sell at discounts which were often so great as to leave practically no return for the dealer. We vehemently protest against this concept of normal channel as being directly opposed to the interests of a group of small businessmen for whom this appears to be the last opportunity for a fair return.

5. That all cars requisitioned or purchased by the Government from dealers be purchased at full list price as described in section 2.

6. That the Government shall pay for cost of financing, insurance, and storage on all cars and trucks carried by dealers after January 1, 1942, until liquidated or released.

This request is made because these cars and trucks may be carried in stock by the dealer much longer than is true in the ordinary conduct of business.

7. That the Government agree to purchase at retail delivered prices all cars and trucks, frozen or subject to rationing, which may be tendered by dealers on or after July 1, 1942.

This request is made in order that dealers may be encouraged to accept cars as they are shipped to them in January, and to stay in business, in order that they may render service to the public and attempt to earn a living for their employees and themselves.

Early in this presentation I referred to the need of maintaining service for the vehicles already operating. We know that every dealer wants to stay in business in order that he may salvage some part of his investment. We know that many dealers recognize their obligation to their customers and to their public. For this reason we know that most dealers will make every attempt to remain in business and render service that is humanly possible. We feel that this request is justified not only as a matter of equity but also in order that dealers may be encouraged not to liquidate at present but to continue for a few months in the hope that by that time they may have devised supplementary means of income which may enable them to keep their employees at work and their service establishments open to the public.

That no restrictions be placed on the sale of hearses, ambulances, town cars, limousines, convertible coupes, or convertible sedans or trucks that are not standard units.

This paragraph refers to cars which it is anticipated might never be purchased by the Government and might remain in the hands of dealers indefinitely.

We wish to call your attention to the situation regarding leases, mortgages, etc., covering our places of business. The ordinary automobile salesrooms and service establishments are as a rule built solely for the purpose of storing, selling, and servicing and are not readily adaptable to other businesses. For this reason it has been customary for landlords and mortgagees to refuse escape clauses, and furthermore it is difficult for the automobile dealer to sublease his premises. We respectfully request that you consider the plight of this special situation together with those dealers who may have large investments in property by reason of heavy tax and carrying burdens.

One other special situation we would like to refer to you is the fear that our used-car stocks may be frozen. This will be the last blow because it is only from the liquidation of used-car stocks that we may hope to secure that inflow of cash for a short period of time which is necessary for the maintenance of small businessmen. If the used-car stocks be frozen, then the difficulties which will face dealers in paying income taxes on March 15 cannot be exaggerated.

We are grateful to this committee and the Members of Congress for the gracious hearing they have accorded us and for the many expressions of willingness to give us direct and specific aid.

We have had certain evidences of intent upon the part of some of the agencies which are handling these matters to give sympathetic regard to our equities and to our pleas for an opportunity that we, too, may be allowed to continue to serve America. We are hopeful that with your assistance we may secure adequate acceptance without recourse to legislative action, but we shall look forward to the opportunity of keeping you advised of our position in order that we may have the continuing benefit of your assistance and support.

In closing, may I say that we, the automobile dealers of America, shall face this situation with our chin up, that we shall support every measure necessary for the successful prosecution of the war to the utmost, but we shall resent being

made the special victims of policies which deny to us what others are receiving.

May I say once again that those things I have asked for do not require the diversion of 1 ounce of steel, of chromium, of nickel, or lead, of rubber, or of any critical material, but will merely encourage a group of forlorn small businessmen to keep on struggling in the knowledge that there has been an attempt to render them justice by spreading an infinitesimal part of their burden over the whole country.

The CHAIRMAN. Mr. Castles, will you come around please. We will now be pleased to hear from Mr. D. E. Castles, of St. Louis, Mo. I understand that he will discuss the unemployment problem and financial questions confronting the automobile dealers.

Mr. Castles, we will be glad to hear you.

STATEMENT OF D. E. CASTLES, OF ST. LOUIS, MO.

Mr. CASTLES. Mr. Chairman Patman and gentlemen of the committee, I would like to touch briefly on two phases of the present situation, as it applies to automobile dealers and their employees.

Mr. BULWINKLE. First give your name and the position that you hold to the stenographer.

Mr. CASTLES. My name is David E. Castles. I am an automobile dealer in St. Louis, Mo., and I am likewise treasurer of the National Automobile Dealers Association.

The first thing that I would like to talk about is that question that has to do with the employees themselves. During the past few weeks official Washington has expressed great concern over the probable effects of the order discontinuing all automobile production on the employees of the manufacturing plants. I read that this has been a matter of special consideration of one or more committees set up for the purpose.

That concern is perfectly proper. There are approximately 447,000 employees of automobile manufacturing plants. The well-being of this great number of workers and their families should be given attention.

The most recent statements of Government officials to the effect that these people would be without employment for only a short time during the change-over from automobile production to the manufacture of war goods is welcomed by every citizen.

Let us compare, however, this, to the plight of the employees of the marketing end of the business. Latest Census figures indicate that in all sales and servicing employees of the automobile business and allied lines number over $1\frac{1}{4}$ million people. Directly in the sale and servicing of cars and trucks there are an estimated 44,000 dealers and one-half million employees. Should these workers and their families not be given the same thoughtful consideration as the smaller number of factory employees?

They are not so readily absorbed in other work or in war production. In the first place, they are not grouped together in large numbers as are the factory employees. They are scattered over the entire Nation, from a small number in each village and hamlet to a relatively larger number in cities and larger centers of population. Most of them have no special training or skill that fits them for war-production work. Salesmen particularly, and they represent a large percentage of dealer employees, are being left high and dry, most of them with no place to

turn for employment. Generally they are above military age, they have spent their lives, many of them since the last war doing sales work. They are wholly unfitted to work with their hands. Sales positions in other lines are filled. Just what are they to do?

And I would like to say to you gentlemen of the committee that that is not imagination. In my own case, I have a number of men that I have been forced to retire from employment or notify them that I am about to do so, and I have no idea what they are to do.

One man that I have in mind particularly is a man in the fifties. He spent his early life in the Navy. Since he came out of the Navy he has been doing sales work, and he has been moderately successful, and he is a good citizen, and he owns his home and maintains his family. That man is left without a place to turn. There is no place for him in war production, and no place for him in military service, and no place for him to sell goods of the nature that he has been accustomed and educated to sell.

I have other employees whose situation is equally bad, younger men, who have been successful in selling automobiles and made a reasonable income and bought a home. I do not know what is going to happen to them. My guess is that unless something is done for him he will lose his home.

These are actual cases, and they are duplicated in practically every dealership in the United States.

Automobile mechanics are for the most part general maintenance men. You all know that from the experience you have with your own automobile, the mechanic that takes care of it is not a specialist; he is a general maintenance man, and he has no specialized training; he is not a specialized machinist, ready to turn to a lathe for production work.

Even office and clerical help are hard hit. There is not the demand for such help in all cities and small towns as that that exists in Washington just now. Immediate, if only temporary help, can be given to these people, or at least to many of them, by a release into normal trade channels of new cars that are obviously unsuited for military needs, cars ordered and paid for in whole or in part last month, before the freezing order was issued.

There is much to be done in retail dealerships, in the used-car end of the business. Dealers have many used cars on hand right now. Many more used cars are in the hands of owners who do not need them. If dealers are permitted to function, as they have for years, as a clearing house for used cars, relieving the owner who has no further need for them, reconditioning them, passing them on to those who need them, there will be jobs for many people, salesmen, mechanics, and officers, who will be off the pay roll immediately if the threatened used-car freezing order is issued.

I beg of you gentlemen to see to it that no freezing order is issued on used cars, unless and until it can be definitely shown that such an order is necessary for the country's war program. [Applause.]

Used cars, plus the maximum number of used cars that can be produced and distributed through dealer channels, giving right-of-way, of course, to war production, will do much toward keeping many dealerships in operation and keeping their people employed.

The other subject that I would like to discuss is the dealer's situation with stocks of automobiles frozen on his hands. The expense of holding such stocks is very large, and if there are to be frozen stocks for any considerable time the expense will mean bankruptcy for many dealers. It is customary for a large percentage of dealers to finance their stocks of used cars, and in many cases their stocks of new cars, with the aid of finance companies. The dealer pays a small percentage of the cost price from his own capital and the finance company carries the balance. The dealer pays the insurance on the stock, and interest, at varying rates, usually 4 percent or more. Often it is more.

Of course, warehousing expense is paid by the dealer.

Now, automobiles, by their very nature, take up a lot of room. They represent merchandise of a very high grade and they must be well housed and well cared for. They cannot be piled up in the back lot like scrap iron. The cost of housing and caring for them is a considerable item.

Taxes of all kinds go on with the calendar, and are not affected by freezing orders. In my own case, for example, I have paid to the city of St. Louis a sum of \$2,746.70 for a license to do business in that city in 1942.

The point that I am trying to make is that the general and inescapable expenses continue, and are not in the slightest degree affected by a freezing order.

Because of the size of the investment in an automobile, very few dealers have in their own capital set-up enough money to carry their new- and used-car stocks. The freezing order now in effect on new cars finds dealers generally without enough ready cash to meet the day-to-day expenses, and when March 15 rolls around, as it always has, and I presume it will this year, some dealers who were fortunate enough to make money last year and who planned to pay their income taxes as a part of their operating cost this year, as has been their habit, are going to be hard put to find the money to make the first quarterly payment, to say nothing of the second, third, and fourth.

In this problem, as in cases of employment, at least temporary relief can be given by the relaxation of the freezing order so far as it applies to special-built cars and trucks, cars that are unsuited for military needs, and a continued open market on used cars.

In connection with the freezing order on used cars, I think that it would be well to call to the attention of the committee some of the instances that are working a real hardship not only on the dealer, but on a buyer.

Before I left St. Louis an official of a condensed-milk firm was discussing with me one of his problems. He has a truck, completed, in a truck dealer's establishment, a glass-lined tank for the transportation of milk, and that truck is frozen, and it cannot be delivered by the dealer to the purchaser. It is doing no one one earthly bit of good tied up as it is, and it is doing both the dealer and the man who needs it harm, and the continuation of such a freezing order, it seems to me, is worthy of consideration.

A freezing order on used cars would multiply the difficulties of an already nearly impossible existence. The alternative to the suggested release of the present freezing order, and the continuation of

an open market on used cars, is a possible direct subsidy, or Government allowance, to cover carrying costs on frozen stocks, and a moratorium of some sort on Federal income taxes. It goes without saying that the release from needless restriction and maintenance of an open free trade that does not impede or interfere with war production is much the most desirable from every standpoint.

Thank you. [Applause.]

The CHAIRMAN. Mr. Arthur Center, of Springfield, Mass.

Mr. Center, I understand that you will discuss the need for factual information as to actual war necessities for the Nation.

STATEMENT OF ARTHUR CENTER, OF SPRINGFIELD, MASS., SECRETARY, NATIONAL AUTOMOBILE DEALERS' ASSOCIATION

The CHAIRMAN. Will you give your name and official position?

Mr. CENTER. Mr. Chairman and gentlemen: My name is Arthur Center. I am an automobile dealer in Springfield, Mass., and I am also Secretary of the National Automobile Dealers' Association.

We have been told that with the completion of the January automobile production of approximately 200,000 cars and trucks, that all automobile production is to be stopped for the duration.

We believe that there is a need for the production of some new automobiles and trucks during the war period. Even a minimum production which we urge could have little effect in saving the businesses of 44,000 automobile dealers of America, but it could be of great help in maintaining a vital part of the Nation's transportation system.

Possibly a survey of the stock pile of the available material would develop facts that would permit the manufacture of enough cars to accomplish this aim.

I understand that the restrictions which were placed on the automobile industry in the freezing of all 1942 cars and trucks, were imposed without a detailed study as to the actual war necessities of the Nation. There seems to be a still complete lack of information about the actual amount of materials and just how much, if any, could be spared for the continued production of automobiles. Dealers feel that a comprehensive survey should be made at once for the benefit of all. This survey should include the finding of ways and means to put to use the tons and tons of scrap iron, steel, copper, and other scarce materials that are used in the production of automobiles.

One of the questions occurring in our minds is when is the Government going to capitalize upon the scrap now available in the country. Almost everywhere we go we see junk yards filled with junk cars, and other scrap materials. Dealers tell us that this situation is true all over the country. Of course, approximately 2,500,000 cars are scrapped annually, and they are still in the junk piles, as we see them across the country.

I do not know why this situation exists. It may be because the price of scrap is too low. The seriousness of this shortage is shown in the newspaper clipping, an article in this morning's paper. It states that the scrap shortage is banking the fires in at least 10 percent of the open-hearth furnaces in the Cleveland district, 18 of the 110 open hearths in the Youngstown and Cleveland districts will be idle this week, 12 of them because of the lack of scrap, and six for repairs.

At any rate, we believe that this situation should be investigated, so that use could be made of this material.

Included in these junk piles are tons and tons of used rubber. We understand that this rubber can be reclaimed and that serviceable tires can be manufactured from it. This might serve as a stop-gap while awaiting the construction of factories in which to produce synthetic rubber.

We certainly endorse the campaigns that are now under way to recover scrap paper, and other materials, but believe that critical items such as copper, for instance, should be added to this list.

This survey could very well develop that with the use of reclaimed materials, and some substitutes, a limited supply of automobiles might be produced without hindering the war effort. It has been suggested that a single body type of a no name or "Victory" car could be produced by one of the smaller manufacturers, and distributed through the existing automobile dealer channels. A production of such a car will aid materially in the preservation of a vital part of the Nation's transportation system.

Thank you. [Applause.]

The CHAIRMAN. Thank you, Mr. Center.

Is Mr. Horner present?

Mr. Horner is a dealer in Washington, D. C., and he will discuss the problems arising out of showroom leases.

Mr. HORNER.

STATEMENT OF STANLEY HORNER, AUTOMOBILE DEALER, WASHINGTON, D. C.

Mr. HORNER. Chairman Patman, and gentlemen of the committee:

My name is Stanley Horner. I am a Buick dealer here in Washington, and past president of the National Automobile Dealers' Association.

One of the major problems affecting the retail automobile dealers of America, following the recent freezing of the sale of new automobiles, is the leases on buildings and properties necessary to conduct the sale and service of new automobiles and buildings and lots necessary to handle the sale and service of used cars traded thereon. Due to the fact that these buildings and properties are usually located in prominent sections of cities and towns and are especially designed to suit the display and service of automobiles, their use for any other purpose would require extensive and expensive remodeling. Therefore, the owners usually insist on leases, running from 3 to 5 years, at rentals that usually pay for them over a period of from 10 to 12 years.

In many localities, due to extremely high property values, and building restrictions, it has been necessary for many dealers to borrow from the banks and erect their own buildings, which the bank usually insists be amortized over a period of 10 years.

A very good friend of mine in Charlotte, N. C., has just made an arrangement with a real estate friend of his to complete a very lovely automobile showroom and service station. He has only been in several months and he is paying a rental at the present time of \$1,010 a month. He will have to get out of that building. The man that owns the building has no other use for it. The value of the salesroom in itself is somewhere around \$750,000 just for the display of the cars.

If that salesroom were rented to some other line of business, they could get probably \$300 to \$350 a month for it.

Even though the present restrictions on the sale of new cars were removed, the profit from the sale of the small stock on hand would only postpone the ultimate bankruptcy of most dealers.

In the face of these drastic conditions, we respectfully request some consideration be given concerning legislation to relieve the automobile dealers, and the landlords, of the real-estate obligations that are no longer necessary to conduct a business, forced out of existence by the recent freezing order, and the elimination of new-car production.

Thank you very much. [Applause.]

The CHAIRMAN. Mr. Dingeman, of California.

I understand that you will discuss the labor costs.

STATEMENT OF A. J. DINGEMAN, OF OXNARD, CALIF., MEMBER OF THE NATIONAL AUTOMOBILE DEALERS EXECUTIVE COMMITTEE

Mr. DINGEMAN. I would like to present to you a few facts that I think that you should know pertaining to our service and parts business, in our establishments.

Labor costs vary so much from city to city and from State to State, and from section to section, that it is impossible to present figures which show what the actual increase has been. However, in common with other businesses, automobile dealers have been and are faced with tremendously increased labor costs.

So long as we had something to sell, we were able to meet these costs, but with the better part of our business swept away by the stopping of new-car production the problem of meeting pay rolls is a grave one.

If parts are frozen, as of tires and automobiles, we do not know what would happen.

One way in which we can perhaps weather this crisis is to service the cars already on the road, to keep them rolling. This has two functions, to maintain the Nation's private transportation system, which is so vital to our war effort; as an illustration we have many defense workers who travel to and from work in automobiles, many traveling as far as 40 and 50 miles per day. If some of them should break some part of their car and be unable to get the part for it, you can readily see what would happen. In fact we have heard that some defense plants have requested their employees not to ride in large groups, because in case of an accident they might be injured and tie up some particular part of the defense plant.

Then you have the farmers, all over the Nation, who must get their crops in and they above all must keep their transportation rolling, or we would have a complete tie-up of food products that are essential to us all. Many farmers are using old equipment in these days and are going to need parts to keep them going. The average age of these farm cars is 7 years, and they represent approximately 38 percent of the automobiles in existence, so you can see the necessity of parts that we must have to keep our transportation rolling and to do this job that we have before us.

Even at the present time we are having considerable trouble getting parts on account of the priorities and so forth. We must not have these parts frozen, or rationed. If we do, we are in a very bad way. We must keep parts rolling out to the dealers, and with the new-car situation as it is today many people in addition to farmers would be making their old cars continue to operate, and it will be necessary to repair them, which in my opinion will mean that we will have to have at least 50 percent increase in replacement parts, over 1941.

I believe the only solution to keep the automobile dealers from being forced into bankruptcy today is to give us an adequate amount of parts, as I previously stated, and to give us a maximum percentage of automobiles, that war production will permit, and in closing may I state:

I believe if checked into in a businesslike way, the same as business organizations would do, automobiles will be available.

Thank you [applause].

The CHAIRMAN. Thank you, Mr. Dingeman.

Mr. David Kelly, from Grand Forks, N. Dak.

Will you come around, please, and give the reporter your name and position?

STATEMENT OF DAVID G. KELLY, OF GRAND FORKS, N. DAK., AUTOMOBILE DEALER, AND MEMBER OF EXECUTIVE COMMITTEE OF NATIONAL AUTOMOBILE DEALERS' ASSOCIATION

The CHAIRMAN. You may proceed, Mr. Kelly.

Mr. KELLY. Mr. Chairman, we had a very nice conference the other day with the boys in the other part of the legislative branch of the Government, and they were very sympathetic to our plea for some help, if it were possible, but you know I feel a little bit more at home here, because we see you fellows about three times as often as we see those fellows, and I think that we are going to see most of you in about 6 or 8 months, and at least you will be around to see us [applause].

But you will be around to see us, and some of us will not be here, and that is the thing that I am concerned about.

I expect to see Charlie Robertson; I will probably be there for that long, but the mere fact that you do come around three times as often as the Senate is a vital reason of why we are appearing before you today.

Seeing you at least three times as often as the Senators do, you should be three times as close to our problems, and we feel that we should have as sympathetic or a more sympathetic attitude because of your closer connection with our operation [applause].

In the present national emergency resulting from the declaration of war upon us by the Axis Powers, we find ourselves well prepared on at least two fronts—our food supply and motor transportation. That is due to a far-sighted agricultural policy.

You know I come from North Dakota; that is why they gave me this—prosperity was returned to agriculture over a period of years, sufficiently at least to permit its mechanization. That has resulted in a plentiful surplus of food for the current needs of ourselves and our allies, and that mechanization will permit the continuance of high food volume production, in spite of the wartime drain on farm labor, and only due to that mechanization.

However, farm mechanization is dependent upon motor transportation. The farm family car and truck has definitely succeeded the horse and wagon. We cannot mix the two; the horse and wagon and mechanized farming will not work together. They are just out of joint. Therefore, as far as agriculture is concerned, we must very definitely as a defense effort see that motor transportation for the farmer is not materially interfered with.

The very products that the Secretary of Agriculture has called for in increasing quantities are those products which require most a rapid, efficient, continuous, uninterrupted delivery service, butter, eggs, cream, and other articles of that type [applause].

The defense program, too, provides a real problem in motor transportation. Many of our present defense plants, and most of those plants under construction, will be located outside the corporate limits of any city, town, or village, out in the country, if you please. No means of transportation exists there today, and none will exist except that provided by the employees of those plants. About 40,000 communities in this country depend solely upon motor transportation, upon motor vehicles for their transportation. In Kentucky alone there are 3,575 such communities, remember that.

Gentlemen, 3,575 communities in Kentucky depend upon motor transportation 100 percent. If they have not got it they just have to stay there.

More specifically, a defense survey recently made reveals the following:

Plant A employs over 18,000 persons—97 percent of them travel to and from work in automobiles, and average a distance of 10 miles.

Plant B, with 10,000 employees, reports over 5,000 passenger cars on its parking lots.

Plant C employs 4,000 people—90 percent drive to work an average distance of 10 miles.

Plant D, with 3,200 employees—all use private cars for transportation.

And I can tell you gentlemen that anyone of you who has recently attempted to go by any one of the major defense plants has certainly been sold on the fact that defense workers travel to and from work in their own automobiles. Whether these defense workers, and other millions, use cars singly or loaded to capacity, our problem must include the maintenance and replacement of these transportation units, because an efficient dealer group has provided this country with the finest transportation system in the world today.

That should not mean that that transportation system can be neglected in this emergency. Transportation on the shelves of America simply does not exist in sufficient quantity to permit us to ignore the necessity of maintenance and replacement. We must keep them rolling for the farmer, for the defense worker, for the small town and rural community—for a winning war effort we must keep them rolling.

I thank you [applause].

The CHAIRMAN. Is Mr. Herman Goodin, of Huntington, Ind., present?

Will you come around, Mr. Goodin? After you have taken your seat so that you can be heard, give your name, position, and business, Mr. Goodin, if you please.

STATEMENT OF HERMAN GOODIN, AUTOMOBILE DEALER OF HUNTINGTON, IND., AND MEMBER OF THE EXECUTIVE COMMITTEE OF THE NATIONAL AUTOMOBILE DEALERS ASSOCIATION

Mr. Goodin. My name is Herman Goodin. I am an automobile dealer of Huntington, Ind., a member of the executive committee of the National Automobile Dealers Association.

This matter of rationing seems to be due to shortage of material, metal, rubber, shortage of plant facilities, shortage of manpower, shortage of these elements to supply defense requirements and those of civilians at the same time.

Although final answer to these questions rests with the Government administration, at the same time it is the duty of everyone to supply any and all information he may have on the subject, and to offer any help he may have available.

Suggestions on about three points, and we have very few of them, might be pointed out as follows:

First, for effective aid, with some degree of coercion, in returning scrap and junk to the manufacturer. I would suggest a better distribution of balers. Now, these balers are instruments that are rather expensive, that are set up for the purpose of baling bodies so that they can be shipped economically. They are large and cumbersome, and in a good many cases they are located maybe 500 miles away from large lots of used cars.

Now, it is impossible to haul these automobile bodies, for instance, in their present condition. They have to be baled up and reduced to a size by which you can get more tons and better loads.

We would suggest, perhaps, a better distribution of balers, or perhaps the development of a portable type.

Then, this matter that has been suggested of price structure on this scrap. A higher price might entice more of the material into the market, and then a requirement that all available scrap and junk be returned before rationing priorities be extended. That is a matter of coercion to some extent, that nobody be permitted to hold our scrap or new or used or any kind of material that could aid in the defense activity and at the same time be given a rationing order.

A transfer of plants and manpower for use in defense production should in each case be only so fast as to permit a satisfactory safety factor, insuring and guaranteeing the complete development of the defense program.

The process of moving defense manufacturing into automobile plants and transferring automobile building to defense work should only be done with the full consideration of the part plants and men other than those in the automobile industry are doing in defense work. Unless careful consideration be given this subject one industry will then inevitably bear an unwarranted proportion of the load in this war effort.

The factors in determining the necessity for rationing, first, is the entire discontinuance of the manufacturing of automobiles; second, that would depend somewhat on the size of the present stock and the number to be manufactured before discontinuance; third, the number essential to defense in the period of time considering that cars can be economically held.

Information on these questions is not fully available to the automobile dealers, but we believe that we should have a full explanation of the reasons back of the actions taken, and that we should know that basic facts alone are given consideration in the selection of the course taken. Then if rationing of new cars is determined to be necessary only those should be rationed as lend themselves to the development of the objective of such rationing.

No restraint in trade should be placed on cars of any model or year now in the hands of a private owner. For example, if a man owning a 1942 model car wants to sell it to a dealer because he is going into the Army, or for any other reason, he should be permitted to do so, and the dealer should be permitted to resell it. For instance, I have two men who about 4 months ago bought 1942 model cars from us who are going into the Army, and wanted me to buy the cars before they went, and they have no further use for them for a while, and I cannot buy them under the existing conditions.

I presume that in the final analysis it will be arranged so that the situations of that sort will be taken care of but they should be taken care of. Cars in dealers' stocks not suited to the needs of defense, such as limousines, convertibles, hearses, ambulances, and so forth, as well as cars and trucks that have been ordered and especially fitted for specific use, often at considerable expense, such as delivery, refrigerator, and so forth, should not be rationed, and then the one final point, gentlemen, that used cars should never be rationed, because in the handling of used cars the dealer is merely an agent of the public in transferring a piece of merchandise from one owner who might have kept that merchandise, to another more logical owner, and the rationing of used cars amounts to commandeering, and if that should become a necessity, it should be done in a way that will get in the interest of defense those specific cars required, rather than a haphazard model received into a dealer's stock from those owners trading in or selling their cars to such a dealer.

The claim is that a dealer's stock does not necessarily represent, and does not represent, in the full percentage of the cases, the cars that would be required, and that the dealers of America form a group and in case of dire necessity, where you need the transportation of this country they can go out more effectively than any other group in the world, and get the cars the Government wants, and believe me, we are at your service.

The CHAIRMAN. Is Mr. W. L. Mallon present, from Newark, N. J.

Mr. MALLON. Yes, Mr. Chairman.

The CHAIRMAN. After you have taken your seat, please, so the reporter can hear you, face the microphone, and give your name, your position, and your address.

STATEMENT OF W. L. MALLON, DIRECTOR OF NATIONAL AUTOMOBILE DEALERS ASSOCIATION, NEWARK, N. J.

Mr. MALLON. My name is W. L. Mallon, automobile dealer, Newark, N. J., director of the National Automobile Dealers Association.

Mr. Chairman, the purpose of the committee, as I understand it from your remarks, is to investigate to ascertain how it is possible to preserve a large industry represented by the automobile dealers without harming the defense needs.

It seems to me particularly important that the automobile dealers play such a tremendous part in the defense needs. Unquestionably with the absolute elimination of production, as it now stands, every automobile we have in the country is going to be called upon for more work than it ever had before.

We are going to be limited to the number of vehicles necessary for transportation needs. Those vehicles must be serviced. The automobile dealer is the logical man to service them.

Due to the fact that existing leases, existing establishments, cannot be maintained fully by the servicing, it therefore becomes very important that we consider what other means may be considered to keep the dealers in operation to render this necessary service. It is a recognized fact we have scrapped in the neighborhood of two and a half million cars a year over a period of 10 years. That number quite likely will be increased in 1942, due to the fact that we will not be able to obtain the parts as rapidly as we require them and cars will be punished to a greater extent and the number of cars moving to the scrap pile will undoubtedly be increased.

They should be replaced in order to carry out the defense program.

A spot survey hastily made would indicate that a continuing production of automobiles of 20 percent of the passenger cars produced in 1941, in round figures, about 750,000 cars, would enable the majority of the dealers to continue in business.

They would not make money on the number of cars they would have on their proportion out of that total, but unquestionably it would make the difference between survival and failure to the large majority.

I am also advised the factories have to maintain a crew for the manufacture of parts for replacement purposes. The difficulty that they have which you gentlemen are interested in is the labor situation.

Unless the shift could work 40 hours a week, it is rather difficult to maintain that shift to keep them steadily moving where they can pay a full week's work.

I am advised by some manufacturers that a 20-percent production of cars would enable them to keep that shift employed for the entire 40 hours a week, thereby accomplishing many results; first, the manufacture of the necessary replacement parts; secondly, a very much reduced number of cars which would permit keeping the vast number of dealers in operation; and, third, the dealers would then be enabled to render the service which will be so vitally necessary during the next year or 2 years, and all of that would enable the dealer to retain the larger portion of the million and a half employees, which was referred to by one of the previous speakers.

I would therefore like to recommend that the committee give very serious consideration to the value of this industry, the automobile dealers' industry, to the defense program, if it were possible to obtain a limited production continuing month to month throughout the period.

Thank you, sir.

The CHAIRMAN. This morning Mr. Cargile, president of the National Association of Automobile Dealers, was compelled to be down at a meeting of the O. P. M. and could not be here. He is here now, and I will ask Mr. Cargile to come around.

It is coincidental, of course, but Mr. Cargile and I are neighbors in Texarkana, Ark., and I know he is typical of the automobile employers over the entire Nation. We could not very well get along without Mr. Cargile. He is literally in all of our good movements—civic, religious, and other movements; Red Cross and everything else for the general upbuilding and for the public welfare; in every drive of the chamber of commerce Mr. Cargile and his automobile dealers and salesmen are in the drive.

Such men are the driving forces behind every Red Cross and community-chest campaign.

They have helped to build up our clubs, the Rotary, the Kiwanis, and the Lions Club, and all other civic movements. This is really striking at our American way of life, and I do not know how we can get along without them.

Mr. Cargile, we started this morning with a program of hearing the testimony of different witnesses you suggested, and then we expected to come back and have an examination of these witnesses by the committee members, asking questions.

Before doing that I would like to confer with the committee. It is almost 12 o'clock. I would like to confer with the committee members and see whether or not we should proceed now or at a subsequent time.

Will you be available this afternoon or day after tomorrow? I say day after tomorrow for the reason we have Mr. Leon Henderson and Mr. Odlum who will testify, and then we have the car dealers.

Is Mr. Leo Berger present?

How long will you be available?

Mr. CARGILE. I have an appointment at 2 o'clock with the O. P. A., which I am sure I could change.

The CHAIRMAN. We will have a recess for a few minutes and confer and see what the committee would like to do.

(Whereupon, a brief recess was had.)

The CHAIRMAN. Let us have your attention, gentlemen, please.

The committee has decided that we will postpone the questioning of Mr. Cargile until 2 o'clock this afternoon in this room. In the meantime individual dealers who desire to be heard this afternoon will be given an opportunity to be heard in this way.

We cannot give you all of our time, but we will give each one at least 2 minutes, and then permit him to introduce in the record a statement if he desires to enter one into the record. That way, the committee has decided, will be the democratic way to present the views of the people from all sections of the country.

We will be pleased to have them and we apologize because we do not have time to give you all the time you want, but you gentlemen realize that we cannot do that.

So, in the meantime, those desiring to be heard this afternoon will see the clerk of the committee here at this desk.

He will stay here. Give your name, your address, and your position, your business, and you will be called on this afternoon without reference to location or anything else.

Is there anything else, gentlemen?

[No response.]

Members of Congress will be heard on a subsequent date. This is for the industry entirely, and whether or not you are a member of the National Association of Automobile Dealers it makes no difference about that.

So, with that announcement, we will stand in recess until 2 o'clock this afternoon, right in this room.

(Whereupon, at 11:40 a. m., a recess was taken until 2 p. m., of the same day.)

AFTERNOON SESSION

(The committee met at 2 p. m., pursuant to a recess.)

The CHAIRMAN. If the committee will come to order, we will get some of the preliminaries out of the way while the other members are getting in.

I will read the names of those requesting an opportunity to be heard and an opportunity to file a statement. I will just call the names so we will know whether or not you are here listed. If not, come to see the clerk and give him your name.

Arthur E. Summerfield, of Flint, Mich.

Andrew Berger, of St. Louis.

George Higgins, of Detroit, Mich.

Benjamin Ourisman, of Washington, D. C., president of the Ourisman Chevrolet Sales Co.

Freeman C. Yeager, South Bend, Ind.

A. W. Mitchell, president of the Auto Dealers Association of Indiana, LaPorte, Ind.

Charles H. Jenkins, Aulander, N. C.

James Scanlon, president of the Connecticut Automotive Trades Association, Inc.

H. M. Sloate, Hartford, Conn.

L. A. Bloom, Scranton, Pa.

Dr. J. H. Connell, Dallas, Tex.

Leslie M. Farr, Buffalo, N. Y.

Robert S. Johnson, Indianapolis, Ind.

David M. Richman, New Haven, Conn.

Harry G. Bragg, New York, N. Y.

F. W. Eiler, Cumberland, Md.

M. J. Stockton, Newport News, Va.

P. J. Hunt, president Buffalo Automotive Trades Association, Buffalo, N. Y.

Charles A. Dailey, Erie, Pa.

W. J. McGraw, Bellaire, Ohio.

Lee Moran, Pittsburgh, Pa.

John E. Raine, representing the Automobile Merchants of Maryland.

Louis Boshara, Cleveland, Ohio.

Bill Reagan, Chicago.

Fred L. Loeser, New Haven, Conn.

Mr. Primm desires to file a written statement.

Now, if your name is not on this list, I wish you would come forward and give your name to the clerk, if you desire to appear. It is the Chair's preference that only one person be used from a town, if you are all together, or if you are in one group, one from a State, until after the others have been heard.

Then we will go back to those who have not been heard.

Senator Brooks, of Illinois, is here and has entered an appearance which the reporter will take notice of.

First, we will hear from Mr. Summerfield and after Mr. Summerfield, we will hear from Mr. Berger. Mr. Summerfield, come around.

If you will keep your own time, or get someone else to keep it for you, the committee will appreciate it. This morning we were rather lenient, more lenient than a committee is ordinarily, but this afternoon we will ask you to refrain from any expressions of approval or disapproval of what is said by a witness or any other person.

STATEMENT OF ARTHUR E. SUMMERFIELD, OF FLINT, MICH.

Mr. SUMMERFIELD. My name is Arthur E. Summerfield.

I am a Chevrolet dealer from Flint, Mich.

I am chairman of the legislative committee of the N. A. D. A.

Mr. Chairman and Members of Congress, we submit to your honorable body that, first, America has its great job to do. That job is to win this war. However, to accomplish this all-out purpose, we must maintain the very industry that will do as much, or more, than any other industry to achieve this goal.

The maintenance of civilian and defense transportation facilities is of primary importance in the prosecution of the war effort.

It is a well-known fact that both new and used cars not being driven, deteriorate as rapidly as those in active use.

The releasing of present stock into use would accomplish more to improve the transportation facilities of the country than the present policy of freeing. This would result in a larger number of old cars being junked to be used for scrap metals that we need so badly today.

If, at a later date, the country needs more cars and trucks for defense purposes, the Government could employ the automobile dealers to purchase any needed number of cars from private individuals.

In our city of Flint, Mich., we normally employ 40,000 men in the production of automobiles. Present plans call for employment of upwards of 60,000 by August 15 in the city of Flint alone, on defense work exclusively.

In addition to this, we are now building a new tank unit approximately 5 miles outside the city limits to be completed and operating by January 1, 1943.

These thousands of defense employees live approximately one-half in the city and the other half within a radius of 50 miles from Flint.

We have no mass-transportation system extending outside the limits of our city. The men depend solely on the automobile to carry them to their work.

We must not paralyze this vast defense program in our Michigan industrial city by the strangulation of our only means of transportation, the automobile.

The CHAIRMAN. Thank you very much, Mr. Summerfield. We will next hear from Mr. Higgins, and then Mr. Ourisman, and then Mr. Yeager.

Will you come around, Mr. Higgins?

STATEMENT OF GEORGE HIGGINS, OF DETROIT, MICH.

Mr. Higgins. Mr. Chairman and gentlemen, my name is George Higgins. I am State representative of Oakland County and also in behalf of the Detroit Automobile Association.

What I have to say this afternoon is more in the line of three questions that the dealers in my vicinity would like to know, and here are the three questions I have already filed with the committee.

Shall the dealers continue to take new cars from the factory?

Now, we have taken cars, taken them as late as the first of the year. We have got cars we cannot move. Are we going to be in the same position on the tires if they are to be frozen? What is best to do? Give the dealers a certain time to unload the frozen cars?

The third thing, if tires are to be frozen, should not a moratorium be put on the leases?

Now, those are the three questions that we would like this committee to ask Mr. Henderson and see if he can give us an answer on it.

The **CHAIRMAN.** Thank you, Mr. Higgins.

Mr. Ourisman, if you will have a seat and give your name and position to the Reporter.

STATEMENT OF BENJAMIN OURISMAN, PRESIDENT OF THE OURISMAN CHEVROLET SALES CO., INC.; ALSO PRESIDENT-ELECT OF THE WASHINGTON AUTOMOTIVE TRADE ASSOCIATION, WASHINGTON, D. C.

Mr. Ourisman. My name is Benjamin Ourisman. I am president of the Ourisman Chevrolet Sales Co., Inc. I am also president-elect of the Washington Automotive Trade Association, whose motor-vehicle dealers members do 95 percent of the annual unit and dollar volume of motor-vehicle business done in the District of Columbia.

This morning your committee heard the story of the destruction of the 44,000 automobile dealers and their 500,000 employees. Likewise you heard that the United States is a nation in which there is, and has been for many years, a system of individual transportation.

It has been said that in the last war the armament maker could, if necessary, walk to work; it averaged 18 blocks; but in this war the average walk to work would be 18 miles. Therefore, in 25 years, 18 blocks has become 18 miles.

The problem, as I see it, is how to salvage this individual transportation and the means for maintaining it in order to have a maximum of efforts for victory.

The phrase "All out for victory" is meaningless if the American armament worker can't get to his place of employment.

I respectfully suggest that this committee give serious consideration to adopting recommendations to the proper governmental agencies that they immediately take the necessary steps to effect the following four points which, in my opinion, are the essence in solving this individual transportation problem.

(1) A continuous flow of all—mind you, not some—automotive parts that are needed to keep running the 33,000,000 motor vehicles now

running on the roads of the United States thereby helping and not hindering efforts for victory.

(2) Give draft deferments to proven automobile mechanics, so that they may continue their employment with automotive service stations instead of leaving such employment and taking jobs in plants that are directly engaged in the production of war materials.

(3) That the rationing plan to be put into effect be of such a nature that the present stocks of "frozen" motor vehicles will be out of the dealers' hands not later than July 1, 1942.

(4) To carefully check and recheck the stock pile and see if ways and means cannot be developed where 100,000 new motor vehicles per month can be built between April 1 and December 31, 1942, this with the cars now "frozen" and the 200,000 to be built this month, will be equal to about 50 percent of the vehicles that will become unserviceable in 1942.

Thank you.

The CHAIRMAN. We will now hear from Mr. Freeman C. Yeager, of South Bend, Ind.

Mr. YEAGER. I withdraw my request.

The CHAIRMAN. Any of you desiring to file statements will be privileged to do so. They will all be printed.

Mr. S. T. Atkinson, of Charlotte, N. C., and then Mr. Mitchell, and then Mr. Charles H. Jenkins.

STATEMENT OF S. T. ATKINSON, CHARLOTTE, N. C.

Mr. ATKINSON. Mr. Chairman, and members of the committee:

I am an automobile dealer of Charlotte.

I am president of the Charlotte Automobile Trades Association.

There are 15 or more dealers at this hearing from North Carolina and a good number from South Carolina. As a representative of the dealers of Charlotte, I can assure you that we are a most loyal and patriotic group of our Nation.

According to a local newspaper, there will be 10,000 persons affected in our city of Charlotte alone, one-tenth of our population, should the automobile dealers and allied lines be suddenly put out of business.

I therefore would say that our wish is that your committee recommend the adoption of the seven points presented to you this morning by Mr. Chamberlain for Mr. Cargile, president of the National Automobile Dealers Association.

I thank you.

The CHAIRMAN. Thank you, Mr. Atkinson.

We will now hear from Mr. A. W. Mitchell, followed by Mr. Charles H. Jenkins, and then Mr. James Scanlon.

STATEMENT OF A. W. MITCHELL, CHEVROLET DEALER OF LA PORTE AND MICHIGAN CITY, IND.; AND PRESIDENT OF THE AUTO DEALERS ASSOCIATION OF INDIANA

Mr. MITCHELL. I am A. W. Mitchell, of La Porte, Ind., automobile dealer, and president of the Automobile Dealers Association.

One point I would like to bring up is the great need of speed in making some arrangements for the release of cars and trucks.

I am in a defense area and at the present time we have in stock and ready for delivery busses which are vitally needed for transportation of defense workers a distance of 7 miles at one point, and for dormitory people that are living in defense-constructed dormitories and have no other transportation whatsoever.

Something must be done soon because it is interfering with, rather than helping, the defense effort to hold these things in stock.

Another point I think we are all up against is the great expense we are put to in many instances to protect our investment—warehousing of cars, the stealing of tires, employment of watchmen to watch our inventories. All of those things require some speedy action on this thing.

The CHAIRMAN. Thank you, Mr. Mitchell.

We will next hear from Mr. Jenkins and, after Mr. Jenkins, we will hear from Mr. James Scanlon, and then Mr. Sloate, and then Mr. Bloom.

All right; Mr. Jenkins.

STATEMENT OF CHARLES H. JENKINS, AULANDER, N. C.

Mr. JENKINS. Mr. Chairman, and members of the committee, I am Charles H. Jenkins, of Aulander, N. C. I am an automobile dealer in a small town of Aulander, in northeastern North Carolina. The total population of the town at the last census was 1,141 people. We sell about 1,200 new and used cars during the year. I am very vitally affected by the freezing order on the sale of new automobiles, and the community is also largely dependent upon the continuation of our business.

The pay roll from our automobile business is larger than the combined pay rolls of every store and business in town. Unless we are able to dispose of the used cars which we have accumulated during the past fall at a reasonable profit, we will not be able to continue in business for longer than 6 months.

The key to my particular situation is the ability to get additional tires, principally recapped tires, and parts to condition these automobiles for resale.

Our customers will have no incentive to buy these cars unless they are able to get enough tires to put on the cars after they have been repaired; consequently, our whole business operation fails and our employees are thrown out of employment unless some relief is given to allow some allotment of camelback for retreading tires as are necessary to keep the automobiles ready for sale.

There is no defense industry to absorb the labor which we employ, and, from that angle, they will be thrown out of work.

Our contingent liability on cars financed by the finance companies becomes a problem when we are not able to get parts and rubber to recondition and resell the cars that will have to be repossessed.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Jenkins.

We will next hear from Mr. James Scanlon, president of the Connecticut Automotive Trades Association, Inc.; and then we will hear from Mr. Sloate, followed by Mr. Bloom, and then Dr. J. H. Connell, of Dallas.

STATEMENT OF JAMES SCANLON, PRESIDENT OF THE CONNECTICUT AUTOMOTIVE TRADES ASSOCIATION, INC., NEW HAVEN, CONN.

Mr. SCANLON. My name is James Scanlon. I am president of the Connecticut Automotive Trades Association, and also an automobile dealer.

As Congressman Fitzgerald, a member of your committee, knows, Connecticut has been designated as the arsenal of the United States. That is due primarily to the fact that Connecticut has, for its size, the greatest number of manufacturing houses building defense material.

For instance, we have the Pratt & Whitney Aircraft Co., which builds more airplane motors, if my knowledge is correct, than any other motor manufacturer in the United States.

In addition, there is the Pratt & Whitney Machinery Co., which builds the machines which build the motors and other things needed in the defense program, and we have the Electric Boat Co., located in New London, which is building submarines, and the submarine base located in New London, which is building and repairing submarines and boats of every description.

I am bringing this to the attention of you gentlemen because I believe that the point is well taken.

We have 169 towns in the State of Connecticut, and the people employed in these factories and many others which I have not mentioned, but which are in existence, and work on defense work in Connecticut, the people employed in those factories come from each and every one of the 169 towns and transportation facilities are not ample in the State of Connecticut and neither can they be made ample in a reasonable length of time in order to transport the people from the isolated towns to the manufacturing centers and to these factories which are not located in available points.

Now, first of all, if the automobile is not going to be available to these employees they will find it impossible to get to and from work. And if they are going to find it impossible to get to and from work, then the defense program is going to suffer.

I know there are many who live in Meridian, which is 20 miles from Hartford. I mean hundreds, literally, that travel back and forth by automobile to the American Aircraft Co., in Hartford, and the Pratt & Whitney Machinery Co.

Their hours are such that they cannot get to work by train nor by bus, and the United Aircraft Co. is located in Glastonbury, 7 or 8 miles from Hartford, and they would be hours getting to and from work, losing time which is valuable and which we need.

In speaking for the Connecticut automobile dealers, let me make this point clear: There is no dealer in the State of Connecticut, and I do not believe there is one in the United States, either, that has any intention of making any profit while this thing is going on.

The only thing we ask is that we be allowed to remain in business in order to protect our investments and to keep the automobiles running for those that need them.

I thank you very much.

The CHAIRMAN. Thank you, Mr. Scanlon.

We will now hear from Mr. Sloate; and then Mr. L. A. Bloom; and then Dr. J. H. Connell, of Dallas; and then Mr. Farr.

Mr. Sloate.

STATEMENT OF H. M. SLOATE, AUTOMOBILE DEALER, HARTFORD, CONN.

Mr. SLOATE. Mr. Chairman and gentlemen of the committee, my name is H. M. Sloate, president of the Sloate Chevrolet Co., and am also representing the Hartford Dealers Association.

I also come from a defense-production area where people travel up to 50 miles to work.

We in this area know that the smaller dealers have difficulties doing business with those who work in defense plants. This about forces the car dealer out of the picture at this time, and would be disastrous to the people in this area, and once dealers liquidate, it will be impossible to get them back.

Thank you very much.

The CHAIRMAN. Thank you, sir.

Now, we will hear from Mr. L. A. Bloom, of Scranton, Pa.; and then Dr. Connell after him.

STATEMENT OF L. A. BLOOM, PRESIDENT, SCRANTON AUTOMOBILE DEALERS' ASSOCIATION, SCRANTON, PA.

Mr. BLOOM. My name is L. A. Bloom, president of the Scranton Auto Dealers Association, located in the third largest town in Pennsylvania.

At the outset, permit me to say the dealers of Scranton are very grateful for the opportunity of appearing before your committee and presenting our plea for your consideration of the momentous problem confronting all of us, all of which was so thoroughly outlined during the morning session.

We Scranton dealers, by reason of being located in a well-known distress area, wherein our chief industry consists of hard-coal mining, feel these freezing orders tremendously.

For transportation these miners must have cars and car maintenance in order to commute distances from 10 to 20 miles daily to and from work where there is no other public or private conveyance.

Consideration of these workers, in our opinion, during the national emergency, becomes a part of our patriotic duty, since these mines must operate uninterruptedly and we dealers, for the welfare of the general public as well as ourselves, earnestly seek this committee's serious consideration toward the end of affording relief from the hardships now imposed through the freezing orders.

Thank you.

The CHAIRMAN. Thank you, sir.

Dr. Connell, of Dallas, Tex., will next be heard from; followed by Mr. Leslie M. Farr and Mr. Robert Johnson.

STATEMENT OF J. H. CONNELL, VICE PRESIDENT, DALLAS AUTO TRADES ASSOCIATION, DALLAS, TEX.

Dr. CONNELL. My name is Dr. J. H. Connell, of Dallas, Tex., executive vice president of the Dallas Automotive Trades Association.

We thank the gentlemen on the congressional committee for the opportunity to appear here today. What I shall say will be largely in the form of a question, requesting that this question be answered during today, tomorrow, or the next day, at this sitting.

We in Dallas are a center for the distribution not only of automobiles but for replacement parts over an area of 150 to 200 miles, and those shipments go out every day for periods to an extent which is almost unbelievable. Therefore we are deeply interested in keeping the cars and the trucks in that region consisting of more than 1,500,000 units rolling daily because our defense effort and our people depend upon motor vehicles for their transportation of livestock as well as for transportation of humans. And in addition to that, we have 3 airplane factories within 30 miles of our city. They employ thousands of men going to and from the plants in their own automobiles.

The oil and gas industry of our State employ thousands and thousands of men who must come and go according to the clock, and they live at long distances from the refineries and the oil wells.

Therefore we need to see that the stocks of replacement parts are available and that they are made available by the manufacturers.

I would like to call your attention merely to this question. We believe that we can, in our service shops, especially in our larger towns, repair and rebuild a great many Army units. You are familiar with the fact that throughout that section there are many Army camps training thousands of men. There are thousands of automobiles about those camps. Many of them are not in repair at this time. The Government could arrange to group those Army vehicles and assign them to us and we could give them the expert attention that they so much need.

Thank you, gentlemen.

The CHAIRMAN. Thank you, Dr. Connell.

We will next hear from Mr. Leslie M. Farr; then Mr. Robert Johnson; and after that, from Mr. David M. Richman.

STATEMENT OF LESLIE M. FARR, DODGE-PLYMOUTH DEALER, AND ASSISTANT DIRECTOR, BUFFALO AUTOMOTIVE TRADES ASSOCIATION, BUFFALO, N. Y.

Mr. FARR. Honorable Chairman and members of the congressional committee, and fellow dealers:

Let me present to you our immediate problems and then the long-term problems.

In the first place, the problem growing out of the freezing order, such as the completion of contracts entered into prior to January 1, 1942, and, second, the tremendous expense borne by the dealer in carrying new car stocks indefinitely, such as warehousing and insur-

ance, and, third, the problem of keeping our organizations together in order to service the 33,000,000 cars now in use.

This problem is particularly acute, because no one employed by us with the situation as it is today, can be blamed for looking for some more stable employment elsewhere.

We want to be able to give them some assurance in order to keep them with us.

Now, for the long-term problem, in the first place many of us are faced with long-term leases, which service business cannot carry, and in cases where buildings are owned by way of high interest and taxes, cannot be paid by service business alone.

In the second place, sufficient new car production should be made available, the strip standard models, in order to replace worn-out models.

The CHAIRMAN. Thank you, Mr. Farr.

We will next hear from Mr. Robert Johnson; then Mr. Richman; and then Mr. Harry G. Bragg.

STATEMENT OF ROBERT JOHNSON, PRESIDENT OF THE INDIANAPOLIS AUTO TRADES ASSOCIATION, INDIANAPOLIS, IND.

Mr. JOHNSON. Mr. Chairman, and members of the committee:

My name is Bob Johnson. I am a Chevrolet dealer in Indianapolis, Ind.; also president of the Indianapolis Auto Trades Association.

The thing that confronts us in our town at the present time, we have several defense industries there at high gear.

The problem of servicing these cars, these boys are going back and forth to those defense places, is a serious one.

We have released to our defense jobs a number of our young men leaving us with the older men in our organization that are too old to go into that service, who do not have the experience to go into that service.

The question we would like for you to ask Mr. Henderson is what we are to do with those older men.

The CHAIRMAN. Thank you, Mr. Johnson.

Mr. Richman?

Mr. HALLECK. I just want to suggest, Mr. Chairman, if I may, that I hope some time during the afternoon we may get some information as to what effect, if any, the uncertainty that is said by some to exist in respect to what is going to happen in the future to the dealer, might be touched upon.

I have had some communications from some of my dealers out home who suggest to me that they have a number of new cars in stock, that some of them had been doing a little rationing of their own with the idea of kind of carrying along their business during the year, and now they have those cars on the floor. They are paying interest on them. They are paying storage charges. They are looking after them. Their rent is going on and up to this point we do not have any very definite information about what is finally going to happen.

I do not know whether that is going to be dealt with or not, but it strikes me that is something that might be considered.

Mr. RICHMAN. I will be very glad to touch on that.

STATEMENT OF DAVID M. RICHMAN, NEW HAVEN, CONN.

Mr. RICHMAN. Mr. Chairman and gentlemen:

We run a Ford dealer agency. I am also a representative of the New Haven Association, 12 new-car dealers.

I might say, Congressman Halleck, in that connection, the freezing order of January 1 has been so sudden it has completely disrupted an organization such as ours, which is a large organization which employed 96 people and we have a very large investment.

Aside from that, there have been rumors during the past 12 days of many other orders to come, which has had a demoralizing effect not only on our office force, our sales force, but also on the mechanics in the shop.

I would like to say to you earnestly that the situation so far as the dealerships is concerned is very critical.

Our dealership can continue in business for 6 months, perhaps a little longer. The rest depends on the orders that come up. We are optimistic. We are patriotic. We will do everything that we are called upon to do, but in New Haven we have 14,000 Ford automobiles. We are the only dealership in the town that can handle Fords. In New Haven, Conn., we have the Winchester Repeating Arms Co., employing 15,000 people and manufacturing ammunition day and night.

We have the High Standard Manufacturing Co., manufacturing machine guns; the Gilbert Co. manufacturing flares and bombs and other things; and the people employed must get there by automobile.

They cannot get there any other way. We therefore earnestly beseech you, not from a personal and monetary motive, to do something for the good of the entire industry and public at large.

The CHAIRMAN. Thank you kindly, Mr. Richman.

We will ask that you refrain from expressions of approval or disapproval. This morning we permitted it, but the committee decided this afternoon we would ask you to refrain from doing it in the future.

We will now hear from Mr. Eiler.

Mr. EILER. Mr. Chairman, I wish to withdraw my request.

The CHAIRMAN. We will now hear from Mr. Stockton, and then Mr. Hunt after Mr. Stockton, and then Mr. Dailey.

STATEMENT OF M. J. STOCKTON, NEWPORT NEWS, VA.

Mr. STOCKTON. My name is Mark J. Stockton, secretary of the dealer members of the Newport News-Hampton Automobile Dealers Association of the peninsula of Virginia.

The automobile is vital to transportation of our shipyard workers to and from their work 7 days a week in order to build fighting ships, cargo ships, repair ships, and make conversions.

Our present transportation facilities are inadequate for this defense. We must maintain proper service on the automobile owned by the workers who live within a radius of 40 miles from the Newport News shipyards.

Replacement parts, for new and used automobiles, must be provided to take care of the building of ships.

Our automobile dealers are prepared to render our country this service, if provided with the necessary cars, parts, and rubber products.

Our local people also work in the Norfolk Navy Yard and travel back and forth each day in automobiles and busses.

Our desire is to be able to meet our expenses in order to survive and thereby render our country the greatest possible service.

In addition, the automobile serves Fort Monroe, Langley Field, and Fort Eustice along with emergency service to a vital defense center.

Without the automobile dealer, who is going to keep the cars rolling for the defense worker?

The present proposals will eliminate the automobile dealer.

The CHAIRMAN. Thank you very much.

We will now hear from Mr. P. J. Hunt, president, Buffalo Automotive Trades Association, Buffalo, N. Y.

STATEMENT OF P. J. HUNT, PRESIDENT, BUFFALO AUTOMOTIVE TRADES ASSOCIATION AND CHEVROLET DEALER, BUFFALO, N. Y.

Mr. HUNT. My name is P. J. Hunt, Buffalo, N. Y., automobile dealer and president of the Buffalo Automotive Trades Association, representing approximately 150 dealers in Buffalo and Erie County.

We endorse the 8-point program presented this a. m. by Mr. Cargile, of N. A. D. A.

We also call to your attention the necessity of preserving our business to take care of the maintenance and replacement of the automotive transportation system used by 80,000 defense workers now in this vital area.

This will increase to 100,000 by April or May, and most of this increase will be imported and will need cars, new or used, to travel to and from our plants, the largest of which are from 10 to 20 miles outside the city.

We must keep these cars rolling as there are no bus lines to our largest airplane centers and inadequate transportation systems to the other points.

The CHAIRMAN. Thank you, Mr. Hunt.

We will next hear from Mr. Dailey; and then Mr. W. J. McGraw; and next Mr. Lee Moran.

STATEMENT OF CHARLES A. DAILEY, CHEVROLET DEALER, ERIE, PA.

Mr. DAILEY. My name is Charles A. Dailey. I am an automobile dealer of Erie, Pa. Under normal conditions I employ 75 persons, but today there are only 40 persons on my pay roll and unless some relief is given this number will be further reduced and eventually the business will be forced to close.

It appears to me that I, along with thousands of other automobile dealers, am scheduled to be first among the economic casualties of the present war. If this is to be the order of the day, I, as an American, accept it; but I would like to have you remember the automobile retailers have shown a patriotic willingness to cooperate with the Government in this present emergency as well as in the many emergencies that are now passed.

I sincerely hope that cooperation will not be required to the extent that the larger established dealerships will be so impaired that they will not be able to recover after we have won the war.

In order to prevent this, I ask that you gentlemen give all possible favorable consideration to the program as outlined by the National Automobile Dealers Association.

The CHAIRMAN. Thank you, Mr. Dailey.

We will now hear from Mr. W. J. McGraw.

STATEMENT OF W. J. MCGRAW, BELLAIRE, OHIO

Mr. MCGRAW. Mr. Chairman and gentlemen, my name is W. J. McGraw. I live in Bellaire, Ohio, and own and operate the McGraw Chevrolet Co.

The question has been asked here how we are to keep going. As I see it, the dealers are going to have enough parts provided so they can take care of, and properly service, and keep their operations going; and in addition to that, contrary to general opinion, there is not a large stock of cars in the dealers' hands.

As a matter of fact, there are only about half as many now as there were a year ago.

I am of the opinion that the cars we have in stock at the present time should not be rationed. The dealer should be allowed to sell those cars to best advantage with a ceiling price established, but allowed to sell those cars where we can get the best deal because he is going to have need for all of the money he can possibly get to keep going.

If you do not do that, and you ration the cars and some fellow gets a permit to get an automobile, here is what is going to happen: You will have some of the dealers whom this fellow will go to and show his permit and say, "All right; I have a permit. Who will give the best offer?"

Then you have some pretty smart buyers. That is just about what will transpire, and I think we want to keep in business. We intend to keep in business. We do not expect to make any profit, but we desire to keep our leases as low as possible so as to go on for 1, 2, 3, or 4 years, because we desire to stay in business.

Let me say in closing, that rationing, if it is necessary, which I do not think it is, by all means, I think it should be based on necessity and not on some arbitrary rule, because in my area I think the coal miner will need cars more than a professional man who has a consulting office in town, and I think the demands of defense are much more important—to get coal for defense.

I thank you.

The CHAIRMAN. Mr. Moran, and after Mr. Moran, we will have Mr. Raine and then Mr. Boshara, and then Mr. Reagan.

STATEMENT OF LEE MORAN, PITTSBURGH, PA.

Mr. MORAN. Mr. Chairman and gentlemen, my name is Lee Moran, dealer in Pittsburgh. I am not going to make any patriotic speech. You know what we dealers have gone through, and are glad to do whatever we can do.

Pittsburgh is a typical mill district, industrial town.

We all know from about 1929 everybody from mechanics to millionaires went suburban; they all moved as far as they could get out of town to get away from the smoke and dirt.

The new Curtis-Wright airplane factory is as far as 29 miles from where some of the men have to go to work. Beyond that, Congressman Halleck asked what dealers are going to do.

In my own case, I have about 50 automobiles in stock, and the interest, insurance, and storage—that costs me about \$750 a month above the pay roll.

We have no income.

From the day this freezing order took place, in effect the Government made a Government warehouse out of all we dealers. Therefore, I believe the Government has to help us.

I thank you.

The CHAIRMAN. Mr. Raine, I believe, wanted to file a statement. Do you want to make a statement, too?

Mr. RAINE. Yes.

The CHAIRMAN. All right; go right ahead.

We will only hear about five more, and after we hear these people, we expect to have Mr. Cargile return to the witness stand to be interrogated.

STATEMENT OF JOHN E. RAINE, AUTOMOBILE MERCHANTS ASSOCIATION OF MARYLAND

Mr. RAINE. Mr. Chairman and members of the committee, my name is John E. Raine, representing the automobile dealers of Maryland.

With your approval, I would like to file two statements; one to the effect the stoppage of automobile production and its use will have upon the taxable income of the United States and on each State in the Nation; and the other statement, of the effect of the stoppage of production of automobile parts and tires will have upon the production and the statements made by government and other officials of the State of Maryland, and made by the public service commission of the State who held their recent conference with officials of the Pennsylvania, Baltimore & Ohio, and other railroads and civilian transportation officials of Baltimore.

There is one suggestion I would like to make to the committee and that is this: One of the demoralizing effects, recently, has been the promiscuous publication and publications emanating from some Government departments.

I have in mind articles which I will file with the committee. One article is a report dated January 3 and on the same date there is a statement from the Washington bureau of the Baltimore Sun.

One statement says, "Commandeering of autos hinted," and the other says, "United States won't seize cars now, Henderson says," and the next is, "United States ponders confiscation of all autos."

The result of these two stories has been to scare the American public into sacrificing their cars, and demoralizing the used-car market.

It seems to me that it would be possible to anticipate what the needs of the Government are going to be instead of scaring the dealers and the public.

The CHAIRMAN. Mr. Ploeser desires to ask you a question.

Mr. PLOESER. Mr. Raine?

Mr. RAINE. Yes, sir.

Mr. PLOESER. You are the first man to bring out this point on the Henderson statements. It has come to my attention those statements caused an attempt on the part of the public to dispose of their used cars, and I wonder if, in your particular area, you felt that effect?

Mr. RAINE. Very seriously, not only the effect upon the public, demanding their cars be taken back by the dealers and dumping them and causing the finance companies to take a loss on those cars and the hindrance of the sale of new cars.

(The newspaper articles referred to are as follows:)

COMMANDEERING OF AUTOS HINTED

WASHINGTON, D. C., January 3.—Drastic wartime regulations which already have halted sale of new automobiles and cut tire and tube sales to the general public by 90 percent may be extended to include commandeering of cars for use by the armed forces or in essential civilian services.

Price Administrator Leon Henderson said that, although the Government will refrain from such action as long as possible, requisitioning of cars owned by persons who have no vital need for them was the "gloomy prospect."

Henderson explained that only 650,000 new cars will be available for sale to private consumers after automobile production is shut down next month for the duration.

This number will be insufficient to meet the demands of physicians and surgeons, police, fire departments, and other protective agencies or the need for ambulances.

This means eventual Government requisition of private cars, Henderson said. He commented however that Germany and England had not yet been forced to commandeer cars and said it was a "hot" question.

The Congress of Industrial Organizations took full page advertisements in Washington and New York newspapers to publicize its frequently repeated contention that the automobile industry had failed to enter all-out production of war goods despite labor's urging.

The advertisement, in the form of an open letter to the Office of Production Management, said that 250,000 automobile workers were idle now and that a total of 400,000 would be idle by the end of January.

UNITED STATES WON'T SEIZE CARS NOW, HENDERSON SAYS

WASHINGTON, January 9.—Price Administrator Leon Henderson issued a formal statement today assuring the Nation the Government has no plans to commandeer private automobiles and explaining that fears of commandeering undoubtedly arose from his own answers to questions at a press conference January 2.

At that time Henderson said commandeering of automobiles was "one of the gloomy possibilities" that a prolonged war might bring about.

Henderson said today the Government "presently is well supplied with automobiles" and added there was no occasion for citizens to offer their cars for public use.

"I do not indicate that any such action (as commandeering) was likely or necessary now or in the foreseeable future," Henderson said. "Indeed, at one point in the conference, according to the stenographic transcript, it was stated 'I think it is bad enough to have to freeze things without having to go out and commandeer them.'"

"Reports have reached my office that in some areas citizens are offering to turn over their cars for Government use. These offers are commendable and patriotic. However, the Government presently is well supplied with automobiles, and, while grateful for the spirit shown, I must advise citizens to retain their cars for their own use."

UNITED STATES PONDEES CONFISCATION OF ALL AUTOS, GLOOMY POSSIBILITY CITED BY HENDERSON AS STEP IN WAR EFFORT—CURB ON OUTPUT AFTER JANUARY TO PERMIT PLANT REEQUIPING

WASHINGTON, January 2.—Leon Henderson, Federal Price Administrator, made it clear this afternoon that the approximately 650,000 new automobiles now either on hand, or in prospect this month, probably will be all that will be made until the end of the war.

By careful rationing—even more drastic than the program just being applied to tires—the Government hopes to spread the available new machines over places where they are most needed. Military and war production necessities will come first.

What it will do when these supplies have run out remains to be seen. Government commandeering of privately owned cars is one of the "gloomy possibilities" which Mr. Henderson and his associates have considered. Another possibility lies in the used-car market and still another in the limited operation of perhaps one small automobile factory.

SEES NO INTERFERENCE

In announcing that as many as 200,000 new cars will be produced this month, the Price Administrator said he had canvassed the situation with Army and Navy officials and had found that this would not interfere with military production plans.

From the leadership of the Congress of Industrial Organizations, however, there came tonight a blast at the Office of Production Management for having delayed this long in converting the facilities of the automobile industry to war purposes.

The Congress of Industrial Organizations announced that it was inserting advertisements in Washington and New York newspapers to make public an open letter to the Office of Production Management, in which it asserted that the Nation has "lost 2,000,000 man-days every week in war production through failure to put the 400,000 automobile workers to work."

The National Automobile Dealers' Association, also affected materially by the automobile restrictions, urged the Government to "soften the blow" by allowing "liberal" price ceilings for used cars, by providing for no discounts on cars purchased, or requisitioned by Federal agencies and by allowing dealers to handle the distribution of new cars.

The curtailment of new automobiles and new tires, Mr. Henderson intimated, represents what may be only the real beginning of restrictions on civilian consumption.

SEEK SPACE FOR WAR WORK

"We feel," he asserted at a press conference, "that the civilian is better taken care of if he is ably defended than if he has a rich living."

He said he did not anticipate orders freezing the existing stocks of such durable goods as washing machines and refrigerators, as was done with automobiles and tires, but he indicated that a further curtailment of output is likely.

Both Mr. Henderson and Sidney Hillman, associate director general of the Office of Production Management, pointed out that the halting of automobile production by about the end of this month was necessary not only to save rubber and metals, but to make factory space available for the manufacture of war materials.

Mr. Henderson said the Government thus was anxious to have automobile production completed within a few weeks so that the major job of converting the automobile factories into war plants could proceed uninterrupted.

Mr. Hillman put it this way, in a statement announcing that representatives of labor as well as the automobile industry have been invited to a meeting

here Monday to discuss plans for speeding up conversion of the motor plants to war production:

"Complete utilization of this great industry's machines and men might shorten the war by months. This is a war of production.

TO USE MATERIALS SAVED

"Management and labor unanimously have recognized the need for stopping all civilian production. The job now is to use the materials saved, and the men and machinery made idle immediately to produce planes, guns, tanks, and other war materials."

The Office of Production Management program, to be submitted at the Monday conference, is expected to include the pooling of engineering and production techniques, the placing of defense work in all available plants in the industry, and the establishment of management-labor steering committees to supervise the whole effort.

President Roosevelt, at his press conference this morning, estimated that the average lay-off of automobile employees caused by the retooling necessary for conversion to war production would be 2 months.

SALE PROHIBITION EXPLAINED

Mr. Henderson's conference this afternoon was given over largely to a discussion of the factors which led to last night's order prohibiting the sale of new passenger automobiles and trucks until a rationing plan is developed.

He pointed out that the diversion of civilian supply, which he directs, had counted for some time on drastic reductions in automobile production. But not until it was realized how serious the Pacific shipping situation was, he explained, was it seen that a total cessation of production was necessary.

As it is now, he said, "we face a situation where I can't see any passenger-car production for the duration."

PARTS MANUFACTURE AFFECTED

Since December 10, he disclosed, the manufacture of automobile parts has been virtually stopped. This is the process by which raw materials are "chewed up," as Mr. Henderson put it, into the components which move up to the assembly lines.

Approximately \$213,000,000 worth of parts are now on hand. Of these stocks, about \$100,000,000 worth would be used in the assembly of the 200,000 new cars likely to be permitted this month. The balance will be used partly as replacement stocks, but its full use has not been determined.

The exact amount of additional production to be allowed this month and its final termination probably will be decided next week, at the meeting Mr. Hillman spoke of. Mr. Henderson said, however, that 200,000 new cars was the total officials had in mind, and that January 31 was the probable dead line.

STOCKS PUT AT 450,000

It was estimated yesterday that dealers' stocks of new cars total approximately 450,000.

This aggregate of 650,000 new automobiles on hand or in sight amounts to about 6 weeks of normal winter production and compares with the industry's past figures of approximately 4,000,000 new cars a year.

Production in January will be allowed, Mr. Henderson said, partly to avoid the considerable "economic loss" which would be incurred by closing all the plants now and scrapping the parts inventories and partly to clear factory floor space for conversion to war production.

Plans now are being concluded for a substantial production of military vehicles, he said, which is scheduled to get under way in March. It was ascertained, he added, that this production could not begin much more before that even if automobile production was stopped today.

NO SPARE TIRE ON NEW CARS

The new cars which are made this month will be equipped with four tires, but no spares. Whether their tires will be first-grade rubber, or second, or third grade will depend on whether they are going into military service, which, of course, will get prime rubber.

Mr. Henderson recalled that a "pretty substantial program" intended to assure the production of adequate amounts of repair parts for old machines has been in effect for some time. The parts inventories for new cars now on hand will take care of repairs for new models, he said.

Some Federal assistance also will be extended to automobile dealers who will be hit very hard by the curtailment. It is likely that some of the 200,000 cars to be produced will pass through the dealers' hands, since they are able to handle them better than are Government agencies for example.

"FROZEN" PLAN NOT FINAL

Dealers will not be required to keep "frozen" stocks of new cars on their floors indefinitely, Mr. Henderson stated.

He said, in response to a question, that he didn't know whether all of the motor industry's facilities can be converted to war uses. That still has to be worked out.

As to the possibility of Government commandeering of private cars to supply its needs after the new stocks have been exhausted, Mr. Henderson said he was making no predictions. That has been an issue which even the British and the Germans have treated gingerly, he remarked.

He didn't know whether it would become necessary here, he said, even though that possibility has been considered. This and some other questions, he declared at another point, "depends on the Japs."

"I don't know how soon we can lick them," he added.

The CHAIRMAN. We will now hear from Mr. Louis Boshara, of Cleveland, Ohio.

STATEMENT OF LOUIS BOSHARA, TRUSTEE, OHIO AUTO DEALERS ASSOCIATION, AND MEMBER OF THE CLEVELAND AUTO DEALERS ASSOCIATION, CLEVELAND, OHIO

Mr. BOSHARA. When the Government found it necessary to freeze the new cars in dealers' stocks, they knew the number of new cars available and we doubt the method of distribution will directly benefit our war effort. However, if used car stocks are frozen, of which there are not more than 500,000 in dealers' hands, and only 50 percent of these late models, that number represents about 2 or 3 percent of all the cars in use today.

Such freezing of used cars will be the final death blow to us.

In the meantime, over 27,000,000 used cars could be bought and sold by individuals one from another.

Also consider the plight of the draftee, of which there may be between four and five million, most of which will have cars to dispose of.

If we are out of business, where can a draftee sell his car for cash. How would he find, in the short time allowed him, a buyer without a car to trade back to him? That is another difficulty in the way of the boy giving his all for his country.

We from Ohio wish that you would consider these two important facts before used cars are allowed to be frozen.

Thank you.

Mr. HALLECK. I have been much interested in this used-car situation. I do not know whether they are going to freeze used cars or not, but I would like to inquire if you can tell us the way dealers have operated, how many used cars do they sell for one new car.

Mr. BOSHARA. Approximately two.

Mr. HALLECK. Now, what do you know about the function of dealers, the function they have performed in their used-car operations to

get cars that are desirable to the needs of the individuals into the hands of those individuals?

Mr. BOSIHARA. That takes place automatically because buying and selling used cars is the function of many dealers throughout the country, of which I am one. During the year 1938, in spite of the fact I am an out-and-out new car dealer, and in spite of the limited amount of new cars sold in 1938, I bought and sold to the public at a small profit to myself and no doubt service to the public, they were able to buy those used cars reconditioned and ready to go, over 150 used cars in the year 1938.

Mr. HALLECK. Assuming the order in respect to the production in new cars continues, how valuable would the right to continue to deal in used cars be to the dealers generally?

Mr. BOSIHARA. There, the value of that would be to this extent—there are no doubt many dealers throughout the country who are going to make a whale of an attempt to stay in business. Most of these dealers have what is considered good service set-ups.

That is, they do quite a bit of service business. Along with that practically all of us have used-car lots. Through these used-car lots, I, for example, have an idea I could stay in business and this used-car operation of mine may help me to remain in business, not that there would be any profit because competition will be so keen that all of us would operate at a very small profit in taking care of draftsee needs and others, and reconditioning, and selling them at a very small profit.

If new cars are frozen, the dealer is frozen out of the field.

That does not stop the selling of used cars from one person to another.

In the city of Cleveland, about 20 to 30 percent of the used cars sold are sold from one person to another without any restrictions on the dealer. So if there is any restriction on the dealer, 100 percent will be transferred through the individual. The automobile dealer will not have that revenue.

Thank you.

Mr. HALLECK. Thank you very kindly, sir.

The CHAIRMAN. We will now hear from Mr. Reagan, of Chicago; and then Mr. Loeser; and then Mr. Nall, of Iowa City.

STATEMENT OF BILL REAGAN, CHICAGO, ILL.

Mr. REAGAN. Mr. Chairman, and members of the committee, my name is Bill Reagan. I am an automobile dealer and treasurer of the Chicago Automobile Trades Association, representing 451 members having in stock 1,302 new cars and 12,705 used automobiles.

I think this committee will bear out what I have heard about the unselfishness of the automobile dealer. I do not think there is any question about his patriotism, but I do think he has to have some means of staying in business.

Mr. Raine brought up the subject of the used-car situation and the commandeering of used automobiles in the United States of the public.

I think frankly some of our public officials have gone nuts. We have had one of these men tell us they are going to commandeer the

automobiles and the very same day the mayor of Chicago issued an order to enforce an ordinance passed in 1909 saying that no automobile should be parked on the public streets after night. It would be physically impossible. There is not enough garage space to do so. As a result what public officials have done is to destroy confidence. It is very common to have a man walk in and say "They are going to take my car away" and so the "gyms" buy it at about 20 cents on the dollar and they are making millionaires out of gyp dealers. And I beseech this committee if there is a chance of freezing used cars to do everything possible against that. The used-car sale is just a liquidation of capital. We are going to take our loss patriotically but I do not see how we can stay in business if they do that for 6 months or 30 days.

The CHAIRMAN. We will have Mr. Fred L. Loeser, of New Haven, and then we will hear from Mr. Vern Nall, of Iowa City, Iowa.

STATEMENT OF FRED L. LOESER, OF NEW HAVEN, CONN.

Mr. LOESER. Mr. Chairman and members of the committee, my name is Fred L. Loeser, of New Haven, employing 100 people. I listened here all day and I am wondering when we all lose sight of what the automobile means to this country—our living, our whole life, our defense plans depend upon speed; and the automobile is the only method of transportation that will give us that speed, taking people back and forth to the defense work. We heard that we are asked to take care of these cars. We, as good patriots, will do that. We are losing our mechanics daily. Out of some 80 men we had a year ago we had our trained experts. They are going either into the Army or the defense work. There is no opportunity on repair of cars to keep us going.

The automobile, I am just wondering in the 31 years that I have been in this business, whether it has come to the time, and during the past week I had occasion to have some conversation with bankers and finance companies where they are looking on the automobile as a liability in the hands of the dealer, and for 31 years it was always looked on as an asset. We will go back in the history of the automobile business and I want to qualify right now, I think I can speak for the 44,000 dealers in the United States, whatever the cost is to the dealer, whether they put us out of business, we accept it because it is good for the country; and as I was having lunch today in a lunchroom I happened to glance at a sign reading "Our country, right or wrong," and it struck me right between the eyes. Let us go back a bit, and I am through. In 1921 the country asked the automobile industry to lead us out of difficult times. The dealers had such confidence in their country and in their factories that they went out on their own hook and guaranteed no reduction in prices, and reductions came in prices, and I know dealers personally, personal friends of mine, that it cost them from \$5,000 to \$75,000 that they paid back to the public to make good that confidence they had in their country. There should be no change in operations.

Gentlemen, I believe we are looking for suggestions, and I believe the new cars should be released at once. The banks and finance companies call them frozen assets. They are a liability; no longer an asset.

I believe new cars should continue to be made under supervision and control, and only produce such cars that have ready movement, a quick distribution, and cut out the coupes and do away with the four-door sedan. If that is going too far, then we should have some rules to govern it. By no means freeze the used cars. It means more to the public, and I believe it means more to defense plants, and, after all, that is what we are all shooting at. As to what is best for our defense plans, we believe we should stay in business; and when you call on us we are ready.

The CHAIRMAN. Thank you, sir.

Mr. Harry G. Bragg expressed a desire to be heard.

Major Bulwinkle would like to interrogate a witness. We will now hear from Mr. Nall.

STATEMENT OF VERN NALL, IOWA CITY, IOWA

Mr. NALL. My name is Vern Nall, of Iowa City, Iowa, an automobile dealer. I am vice president of the State Automobile Association, and I am here representing 1,985 Iowa automobile dealers. Doing business in Iowa, I am especially acquainted with the problem of agriculture transportation and the tremendous importance of rapid transportation to the farmer. The larger part of our livestock is sent to markets in nearby States by trucks, because rail transportation has not been sufficient, and we have 642 towns that have no railroad facilities.

There are 975,000 cars and trucks in the State of Iowa, and over 70 percent of these are in the hands of food-producing farmers, and the average age of the farm car is 7 years. If the automobile dealers are not able to service and repair and keep running this 70 percent of these automobiles and trucks devoted to agricultural production, the production and transportation of food will be immediately and seriously curtailed in the greatest food-producing State in the Union; and if curtailed, will, no doubt, contribute to unrestrained rising food prices. We also believe there is no more reason for freezing the stock of used cars than for the freezing of horses and mules, in the hands of livestock dealers, that may later be used by the Government.

The CHAIRMAN. Thank you very much.

STATEMENT OF JAMES MAUME, PRESIDENT OF THE PENINSULA AUTOMOTIVE TRADE ASSOCIATION

Mr. MAUME. Mr. Chairman and members of the committee, my name is Jim Maume. I am a Chevrolet dealer in the lower Virginia peninsula. I am here today as a member of the Newport News-Hampton Automobile Dealers Association, and also as president of the Peninsula Automotive Trade Association.

Gentlemen, in a few words, I think, having heard all of the testimony that was given today, it is plain to me that in no way whatsoever has there been any mercenary motive in back of any statements made on the part of the dealers testifying here.

I am empowered to say for the Peninsula Automotive Trade Association as their president, with their knowledge and with their consent, that we have no mercenary motive in view; we have no monetary

motive in view; and we are not selfish. We yield to no man; we yield to no group in our patriotism, in our desire to do whatever is necessary to do.

We only respectfully request very serious consideration of this committee, and other men in power, respectfully request that every consideration be given to all automobile dealers just for the right to survive.

Thank you.

The CHAIRMAN. Thank you.

Is there any other person who has requested an opportunity to be heard who has not been given that opportunity?

If not, I will ask Mr. Bulwinkle to call his witness; he wants to interrogate him.

Mr. BULWINKLE. I would like to call Mr. Dave Smith.

STATEMENT OF DAVE SMITH, OF GASTONIA, N. C.

The CHAIRMAN. Give your name and residence or business and position to the reporter, will you, please?

Mr. SMITH. Mr. Chairman and gentlemen, I am Dave Smith, of Smith Chevrolet, Gastonia, N. C.

Mr. BULWINKLE. Dave, how many new cars did you have on the floor in January, on January 1?

Mr. SMITH. On January 1 I had 26.

Mr. BULWINKLE. How many old cars did you have?

Mr. SMITH. I had 33.

Mr. BULWINKLE. Now, I want you to state to the committee how many men did you have in your employ?

Mr. SMITH. I had 23 on the 1st of January.

Mr. BULWINKLE. How many did you say you have now?

Mr. SMITH. I have 18.

Mr. BULWINKLE. How many used cars do you sell a year?

Mr. SMITH. An average, well, this past year we sold 600 used cars and 300 new ones.

Mr. BULWINKLE. Does the ratio run about 2 to 1?

Mr. SMITH. Just about 2 to 1 with us. It varies some years, sometimes it is a little higher or a little lower, but ours is about 2 to 1.

Mr. BULWINKLE. Now, let me ask you this question: What is the least, or what requirements do you think that you should have in order just to stay in business?

Mr. SMITH. Well, that is a mighty big question; it is a very important question. If we could get the parts to service our customers, say we sold 300 cars in this past year, I believe that survival is all that we are looking for, if we can survive this we will all be happy. I can say that I can survive with four cars a month, if it is humanly possible that we can get a few cars, just to merely exist on, and give us parts to stay in business, it will be mighty fine; and if we don't do that, why I am like the rest of them, I cannot see any hope.

Mr. BULWINKLE. Now, how about the used cars?

Mr. SMITH. Well, the used cars, we have been getting along mighty well with the used cars; we have sold 600 cars at a very, very small loss.

Mr. BULWINKLE. You do not want any freezing order on them?

Mr. SMITH. We do not want any freezing order on anything.

Mr. BULWINKLE. I wanted to ask Mr. Halleck if he wants to ask anything.

Mr. HALLECK. What has been your observation of the function of the dealers in getting the used cars into the hands of the people, who really need them, and who can use the type of a car that is classed as a used car?

Mr. SMITH. I hardly know how to answer your question, because we dealers, we don't all work the same, we have been very fortunate with our used cars, and we do not have any trouble disposing of them, because we do recondition them and give people their money's worth, I will say that.

Used cars are no problem, and have not been a problem with us, I am mighty glad to say.

Mr. BULWINKLE. You spoke of sufficient parts to recondition the cars. How about the rubber?

Mr. SMITH. Well, of course, if we do not get parts to recondition the cars, our used cars or the customers' cars, I do not see how we can stay in business without replacement parts. That would be absolutely impossible.

Mr. BULWINKLE. How much rubber would you need for recapping of tires; do you think that you would need much?

Mr. SMITH. Well, Major, that is a question that I cannot answer, because we are not in the recapping business, and I could not answer that question.

The CHAIRMAN. Are there any other questions, gentlemen of the committee?

Mr. PLOESER. If they should allow you to stay in the used-car business, but still ration used and second-hand tires, where would you be?

Mr. SMITH. Well, without tires we cannot sell cars, but so far as the used cars that we have, I do not think that there is any dealer here that cannot dispose of all the used cars that they have, and we cannot get the idea of tying up used cars. I cannot see that at all.

Mr. PLOESER. I can agree on that point, and I can readily see where the used-car business should become a great deal improved under the present situation.

Mr. SMITH. That is right.

Mr. PLOESER. But on the other hand, your problem is not just remaining in the position to sell and dispose of them and transfer and exchange used cars, if the rubber situation which is far more acute than the actual manufacture of automobiles ties up your used cars.

You have two problems as I see it—one, to save rubber and, second, to save the privilege of transferring that car with some rubber.

Mr. SMITH. But at the present time we can dispose of the cars we have got now, and I would think of that a little later because I am sure we can all get rid of what cars we have now; so freezing used cars now, I just cannot get the idea of that at all.

Mr. PLOESER. How long do you think that you can stay in business if you are permitted to sell some used cars and dispose of the new cars that you have in stock.

Mr. SMITH. What about parts? You mean assuming that we will have parts?

Mr. PLOESER. Assuming that you have or can get the parts.

Mr. SMITH. We will stay in business on our present set-up at least 12 months, because we have the new cars and the used cars, as I told you, and I will say at least 12 months, but after that I do not know.

Mr. PLOESER. Have you been buying used cars in your particular business for cash?

Mr. SMITH. No; I have not. I have not bought any used cars.

Mr. PLOESER. Was there any increase in the number of used cars offered for sale as a result of Mr. Henderson's statement that he hoped it would not be necessary to commandeered private automobiles?

Mr. SMITH. We have had some few folks that were a little scared about that, they have been bringing their cars up and offering them for sale.

The CHAIRMAN. I did not get your statement.

Mr. SMITH. We have had some folks coming by and wanting to sell their used cars, but we have not bought any, because that has scared quite a few folks having used cars.

The CHAIRMAN. Mr. Kelly, of Illinois, desires to ask a question.

Mr. KELLY. Mr. Smith, I believe that you stated that when the freeze order went into effect, there were 36 new cars in your place of business?

Mr. SMITH. That is used cars; 26 new cars I believe is right; yes, sir.

Mr. KELLY. When the freeze order was issued, how many of those new cars were sold prior to the freeze order?

Mr. SMITH. To be frank, we still have got our 26. I only had one other, a truck.

Mr. KELLY. You are prohibited from selling that truck?

Mr. SMITH. I understand so; the truck is there.

Mr. KELLY. Now, in dealing in used cars, in the complete turnover of the used cars, there must necessarily have to be new cars in that operation; is that not so?

Mr. SMITH. That is so; yes, sir.

Mr. KELLY. And without the new cars you cannot operate in the second-hand or used-car business?

Mr. SMITH. We can operate, what I would call a skeleton force: we could get along with parts, but if you do not give us parts we cannot exist.

Mr. KELLY. And really that actually goes back to the new-car operation?

Mr. SMITH. That is right; yes, sir.

Mr. FITZGERALD. I am interested in the transportation of defense workers.

How long in your opinion do you think that it would be if the parts are frozen, and rubber is frozen, before that very important means of transportation for defense workers will break down completely in this country?

Mr. SMITH. Well, that is a pretty big question; you mean, to freeze parts now?

Mr. FITZGERALD. If the parts are threatened to be frozen?

Mr. SMITH. Well, of course, that would have an immediate effect, but as to how long it would take to stop completely, that would be practically impossible to say.

Mr. FITZGERALD. But it is possible that if this order went into effect, that it would paralyze this important means of transportation of defense workers?

Mr. SMITH. It would completely paralyze it, the way I see it.

Mr. FITZGERALD. I am trying to bring out the fact that in my State, Connecticut. It has been reported here it is one of the leading States in the country today in defense workers, and while it has been testified that the workers travel 18 miles, I know from actual facts that they are traveling 100 miles a day to defense areas, in Connecticut, back and forth, and it means that if this transportation were paralyzed that the Government would be forced to build a great many more defense homes that they cannot build at the present time.

Mr. SMITH. I think that you are exactly right, sir.

The CHAIRMAN. Any other questions by the committee?

Mr. BULWINKLE. Have you anything in your mind that you think that this committee ought to know, that you have not told?

Mr. SMITH. Well, I am sure that we have got a very fine, sympathetic committee, and I am sure that they will do everything that they possibly can, what they possibly can do for the automobile industry, because it is a big thing, and if we are cut off, why, of course, we will have to take our medicine; there is not a dealer here that that will not do what he is told to do and asked to do, and I am sure that your gentlemen will be sympathetic with us and do everything in your power that you possibly can.

The CHAIRMAN. Thank you, Mr. Smith; thank you very kindly.

Mr. Cargile, the committee members want to ask you some questions. I shall refrain from asking you any questions until the committee members have asked you questions.

Mr. Halleck, would you like to ask any questions?

Mr. HALLECK. There is one matter to which I would like to refer for a moment, if we could. It is in point No. 1 of the statement that was prepared. I can direct your attention to it, I think, Mr. Cargile. It has to do with the confusion that exists by reason of the actual purchase of cars before January 1, but cars that were not delivered as of that date.

I am constrained to inquire about that because several of my constituents have communicated with me; they have bought cars and paid for them and maybe they were having a little other equipment put on them or something of that sort, and now they do not know whether they can get delivery on them or not. What further could you say as to a suggestion for alleviating that uncertainty?

FURTHER STATEMENT OF L. CLARE CARGILE, PRESIDENT, NATIONAL AUTOMOBILE DEALERS' ASSOCIATION

Mr. CARGILE. Mr. Halleck, might I make this preliminary statement that might reply to that, and some others that someone might want to ask? That your committee and the Members of Congress have been extremely helpful to us, far more helpful than you realize,

and possibly no one but I am in a position to realize just how helpful you have been.

Anyway, within the last 2 days we have had some very satisfactory negotiations with some of the agencies which show an intent of purpose which we are sure is going to materialize to alleviate many of these things brought out in these eight points, and I will be glad to go ahead and answer your question, but it will be a repetition of the things that I have told them, and if it is your desire I will be happy to do so.

Mr. HALLECK. I do not care to press it; I am happy to learn it.

Mr. CARGILE. I am not attempting to evade it at all, but I want first to say that these agencies are showing a delightful spirit, very sympathetic spirit, now, which we deeply appreciate, and which promises a great deal of good upon our immediate needs.

Mr. HALLECK. Of course, I realize that many of these problems are administrative in character, and for their solution depend in large measure upon administration and upon regulations, but of course I am glad to hear you report that maybe some of the things that have been said up here, and done, may have been a little helpful, because, as Members of Congress, as you know, we are in direct contact with the people back home, and if we have been able to do anything to help in the solution of these problems I am sure that we are glad to do it.

Mr. CARGILE. It promises to be decidedly helpful; very, very decidedly helpful.

Now, suppose that I go ahead and discuss, if you wish—I want to make it clear that I am not trying to evade your question.

Mr. HALLECK. I do not care to press it; if it is in the process of being solved that is good enough for me.

The CHAIRMAN. Go right ahead, Mr. Cargile, if you care to make a statement of your own.

Mr. CARGILE. Not unless Mr. Halleck wishes it.

May I say in furtherance of my general remarks that it appears now that in view of these negotiations that our program will very quickly divide itself into a short-range program and a long-range program, and that possibly by reason of the fine assistance and sympathetic support that you gentlemen have given that the short-range program is going to be very quickly cared for in a manner which will be on the whole satisfactory, as I view it, to the dealer body of the country. There may be some who are not in accord with that, but I think that it will enable most dealers or some dealers to stay in business who otherwise would not have.

Now, certainly we have a long-range program which has not been developed. We developed a short-range program because the time was so imminent, and so pressing, and we shall solicit your help in securing the long-range program. I shall not avoid answering any questions that you may desire.

Mr. KELLY. Mr. Cargile, you being the president of the National Automobile Dealers Association, I notice on page 2 of your statement where you specify the manufacturers and their employees have received much attention from the Government.

I presume by that that you mean that the production end of the automobile industry has been converted into the manufacture of war implements; is that not so?

Mr. CARGILE. Well, it has been the custom in many channels to speak of the automobile industry as composed of so many manufacturers, and their employees, taking no account whatsoever of the 44,000 dealers, and half million employees. That has even gone to places of higher authority, who have given publicity, or public statements to the press, expressing sympathy for these manufacturers, and their half a million employees, but having no regard for us, and in many organized groups which have been interested in legislation, that has obtained straight through their program.

Mr. KELLY. In other words, there are two distinct units in the automotive industry, the production and distribution?

Mr. CARGILE. Yes.

Mr. KELLY. And while the employment of the production end is being taken care of by the reconversion of these automobile plants into the war-making industry, the dealers or the distributors of this country are being left out in the cold, as we would say?

Mr. CARGILE. Yes, sir.

Mr. KELLY. And they are the men, after all is said and done, that some reliability must be put in their faith for the transportation system existing at the present time in this country and even after the war is over they will be the builders in reality rehabilitating the transportation system of America.

We all know, and we are all confronted with these facts, that the transportation system today is chiefly automobiles, even the old trolley car is almost extinct in many communities throughout the Nation, and particularly in towns ranging from 40,000 to 50,000, or downward; farm commodities and so on and so forth to market hauls.

We have a situation in Chicago that I believe today cattle runs are coming in within a range of 250 to 300 miles in the Chicago market that ordinarily used to come in there by railroad trains, and, of course, there is going to be an impairment there in the production end of foodstuffs, and then I hope, too, that we might be in some kind of a position to try and rectify some of the inequities that are happening.

I think, Mr. Chairman, that that is all that I would like to say.

Mr. HALL. Mr. Cargile, I just have this question.

If the production of automobiles is cut to 20 percent or less, do you really believe that the great majority of the 44,000 dealers can stay in business?

Mr. CARGILE. It depends altogether upon the administration of O. P. A., which governs the profits which we can make, it depends upon the ability to secure some income from our service departments, and in that connection may I say that we have had a very sympathetic response from Mr. Henderson, and his staff, and I believe that the production of 20 percent of our average production of recent years would enable most dealers to stay in business on a pure subsistence basis.

Mr. HALL. Would they stay in business as more or less of a repair shop?

Mr. CARGILE. Their primary function would be services; yes, sir.

Mr. HALL. Now, you say that they have about 500,000 employees. What ratio of that number is in the shops and what ratio is salesmen?

Mr. CARGILE. In my own business, about 40 percent are salesmen and 30 percent are in the shop and 30 percent in sundry services.

Mr. HALL. Well, the 40 percent are salesmen, that would be 200,000 throughout the country. What will become of those?

Mr. CARGILE. That is the most sad and serious situation facing us. The salesmen, who are of an age above the average, most of them are war veterans, went into this business when the business was comparatively new as they came out of the Army and it is very difficult for them to form new connections.

I think that it should be a part of our function that we should urge every dealer to take care of as many salesmen as he can within the limits of remaining solvent, and beyond that there is going to be a great deal of destitution.

The CHAIRMAN. Are there any questions?

Mr. HALLECK. I have one further question. I do not know whether it is true or not but it has been suggested that part of the reason, at least, for the precipitate action of freezing the new cars and indicating a stoppage of production, a complete stoppage, is the shortage of rubber. If that is true, would it be possible for dealers to sell new cars equipped with tires made from reclaimed rubber?

Mr. CARGILE. It is said, and I am not an authority for this, but I received it on good authority, that the tire made from reclaimed rubber is good for some three or four thousand miles, driven at about 25 or 30 miles an hour. To the extent that that would be satisfactory to the purchaser your question would be answered. I do not know. We have had no experience.

Of course, 20 years ago, the average guarantee on a tire was 3,500 miles, and it would release a great many cars.

Did you have in mind something like the "Victory" car, where—

Mr. HALLECK. I did not have in mind any particular type of car. I was just raising the question as to whether or not if a part of the severity of the order to stop manufacture of automobiles stemmed from the fact that there is a real shortage of rubber, whether or not that might be in part at least averted by equipping the cars not with brand new tires made from virgin rubber, but from some of these other products or substitutes?

Mr. CARGILE. Aside from the reclaimed tires, there are millions of partly used tires which would still render thousands of miles of riding, if some sympathetic method of gathering them together might be arranged.

The CHAIRMAN. Pardon me a minute.

Senator Connally of Texas came in.

Senator CONNALLY. I do not care to appear at the moment. Go ahead.

Mr. PLOESER. Are the factories still delivering the dealers cars that they have on hand or in this completion period of January?

Mr. CARGILE. They are.

Mr. PLOESER. So that your freezing situation is growing, at the moment?

Mr. CARGILE. Yes; the cars we are carrying in stock are increasing, and we cannot carry them.

Mr. PLOESER. That is all.

The CHAIRMAN. I want to ask Mr. Cargile some questions:

What is the average age of the automobile salesmen? I believe that you said a great many of them were World War veterans, thereby indicating that the average age of World War veterans was about 48½ years, about 50 years old.

Would you consider that the average age of your automobile salesmen, over the country?

Mr. CARGILE. Well, above 45, Mr. Patman.

The CHAIRMAN. Do most of these, or are most of these salesmen married and have families?

Mr. CARGILE. Yes, sir.

The CHAIRMAN. Do they have F. H. A. loans and H. O. L. C. loans on their homes?

Mr. CARGILE. In my personal experience they do, without exception.

The CHAIRMAN. Do these salesmen have appraisal talents? Do they appraise property?

Mr. CARGILE. They make tentative appraisals on the trade-in car.

The CHAIRMAN. Do you have any definite recommendations to make as to how the Government should assist these displaced salesmen? I believe you said that group will be hit the hardest. Do you have any recommendations to make as to how they can be taken care of?

Mr. CARGILE. No, sir; because that is a part of our long-range program. We divided them into the two phases of necessity, because this first had a dead line of the 15th, which is tomorrow, and we were very anxious, so we had no opportunity to devise the other.

We are urging governmental agencies to employ as many of them as they can, in checking, and for O. P. A., and other agencies, but that will take only a small part of them.

The CHAIRMAN. If boards should be set up in local communities for the purpose of assisting these displaced workers in obtaining positions of employment, and jobs, I presume that the employers would be glad to serve on those boards, and assist in any way possible?

Mr. CARGILE. Oh, decidedly.

The CHAIRMAN. It has been indicated recently that scrap iron is very much needed. Do you see any way that the automobile industry that is directly connected with the use of steel could assist in assembling this scrap iron, this old steel that we need so badly now, in our defense program?

Mr. CARGILE. I see none, as a result of our experience of the past few months. In August, O. P. M. approached us, and asked for our assistance in getting the scrap iron moved out, and we put on a campaign to get scrap iron moved from the automobile dealer to the scrap dealer—the junk dealer.

We found very little difficulty in getting that because the automobile dealer does not want the junked cars sitting around, the salvaged car, but the trouble seems to be that the junk dealer is unwilling to move the car to the smelter at the price which is being paid.

The CHAIRMAN. We have had complaints before this committee that many of the junk dealers over the country are hoarding this scrap.

Mr. CARGILE. That is definitely true, as can be proved by driving around the city of Washington and Baltimore and other places in this country.

The CHAIRMAN. Why do you think that they are hoarding it?

Mr. CARGILE. Because the price that is being offered, the price ceiling does not justify them in assembling and separating the cast iron, the steel and other parts.

The CHAIRMAN. The gentleman from Chicago awhile ago made a very interesting observation. He said in Chicago that only 15 percent of the cars could be stored; they did not have storage facilities for more than 15 percent, and, therefore, people are bringing their cars in and taking any price that they can for these cars—a \$1,000 car, they have taken \$200 for it. Do you see much of that going on over the country?

Mr. CARGILE. Well, ours would be by reports only which come in to us from letters and telegrams and reports from local associations, and they all indicate that it is a widespread condition ever since that statement was made in the press concerning the commandeering of cars. We had not run into that concerning the storage, that I take it to be a specific situation in Chicago, but certainly ever since that statement was made that the Government might commandeer the individual's cars, there have been thousands and tens of thousands of cars offered for sale.

The CHAIRMAN. Major Bulwinkle, would you like to ask a question?

Mr. BULWINKLE. No.

The CHAIRMAN. Mr. Ploeser, would you ask a question?

Mr. PLOESER. I would like to ask you how many automobiles are rolling in the country today?

Mr. CARGILE. 33,000,000 cars and trucks.

Mr. PLOESER. So the statement that they might be commandeered for use of the Army would mean that if we had an Army of 5,000,000 each man would have to drive about six automobiles?

Mr. CARGILE. Presumably some selective system would have to be applied. It appears that the selective process will first apply to the automobile dealer. He will be selected to furnish these cars. I would like to enlarge upon that a moment, if I can, by saying that that will tie up the liquid structure of so many automobile dealers as to bring immediate disaster if used cars are frozen. That is an intolerable situation, that can be avoided without seriously limiting the prosecution of the war.

Mr. PLOESER. Of course, it is true, too, that unless you can have a movement of tires, the used cars are useless. Is that true?

Mr. CARGILE. Well, there are a great many used tires, and retreaded tires, and here is what happens, Mr. Ploeser: You trade in an \$800 car, and put some used tires on it, and then you take the tires off that \$800 car, which are pretty well worn, and put them on a \$400 car, and then when you sell it you take the tires off it and put them on a \$200 car, so that there would be a good deal of trafficking still going on that would help to keep the traffic of the country going and would help to maintain this group of small businessmen.

And may I remind you that the dislocations that are coming in our entire economy, because of the changes in jobs, are going to make a great deal more trafficking in used cars than we have heretofore known.

Mr. PLOESER. If you do not care to answer this at this time it will be perfectly all right.

Has your association definitely gone into the question with the O. P. A. as to whether or not there is an intention upon their part to ration used tires?

Mr. CARGILE. A used-tire rationing order has already been issued, but not used cars.

Mr. PLOESER. I am talking about used tires.

Mr. CARGILE. Wait a minute, I misspoke myself; no, sir; we have not, as to rationing order on used tires; I was ahead of myself.

Mr. PLOESER. I think it is an important question, because I rather imagine that many of us expect the rationing program on used tires.

Mr. CARGILE. I think that that is to be expected.

Mr. HALLECK. I wonder if I might ask a question. I do not want to pursue it, but I think that we have all been impressed with the sincerity of purpose and honesty of purpose of all of the people of your association and all of the dealers who have appeared here today.

Mr. CARGILE. Thank you, sir.

Mr. HALLECK. And I think that we have all been heartened by an intimation that possibly something is now being worked out that would be most encouraging not only to the dealers here but those of us who are interested in this problem, and I am just wondering if you could not give the committee some suggestion about that, at this time?

Mr. CARGILE. I do not know enough of what is customary in governmental procedure to be well guided, in replying to that question.

Mr. BULWINKLE. I might say this, if it is an agreement, if you are preparing to make an agreement, and it has not been made yet, or just in process, I do not think that you should give it.

Mr. CARGILE. I am very happy to abide by the decision of this committee, of course.

The CHAIRMAN. Are there any other questions, gentlemen?

(No response.)

Thank you very kindly, Mr. Cargile.

Mr. CARGILE. Thank you for the courtesy and kindness shown us all the way through, and we recognize that we would not be where we are today without your support.

The CHAIRMAN. Thank you very kindly.

Let me confer with the committee here just a moment, gentlemen.

FURTHER STATEMENT OF BENJAMIN OURISMAN, PRESIDENT OF THE OURISMAN CHEVROLET CO., WASHINGTON, D. C.

Mr. OURISMAN. I would like to offer the following 13-point program:

1. Make survey and decide upon the vehicles in dealers' stock needed for the Army, Navy, and other war work.

2. Immediately unfreeze a portion of the dealers' stock, especially as it pertains to convertibles and two-passenger cars—that is, coupes—that would not be used for military purposes, and as much other stock as deemed advisable to do so immediately.

3. Consideration should be given to unfreezing those dealers' new-car stocks that are in rural areas, where no defense work or war work is in process or will be in process.

4. That all cars received by dealers after January 1 the Government should pay for the expenses and cost of financing, insurance, and storage if they are still classified as frozen cars and the dealer unable to make delivery.

5. Consideration should be given to unfreezing all cars that are shipped to dealers by factory prior to December 15.

6. Full list price should be paid for all cars purchased or taken over by the Government from dealers.

7. If by July 1, 1942, some satisfactory workable plan has not been agreed to, dealer will have the privilege of selling to the Government all new, unused cars in his stock at full retail delivered price.

8. The Government make a survey of manufacturers manufacturing passenger cars and trucks of their manufacturing facilities and assembly plants, and determine what special machinery, tools, and other equipment that are especially designed for manufacturing parts for such motor vehicles and not adaptable for manufacturing of defense needs, that provision be made that all such machinery, tools, and equipment be made available for manufacturing special parts, in order that an uninterrupted flow of replacement parts are available for servicing the 32,000,000 cars and trucks in the hands of the public.

9. That automobile manufacturers may continue to supply necessary parts where their facilities will not interfere with other war or defense contracts.

10. That in the event the liquidation of a dealer is necessary, due to the present war emergency, his plants, equipment, and facilities be utilized for subcontracts and war work where it can be used for such.

11. Keep a man who has had practical business experience in the rubber industry heading up the rubber-tire rationing with automobile dealers.

12. Has consideration been given to the fact that tires and other rubber merchandise deteriorates through age—tires 12 to 14 months if kept in dealers' shelves? Has consideration been given to the fact that crude-rubber stock deteriorates after a given time?

13. What movement is under way, or has been completed, to make it possible to manufacture synthetic tires to keep the wheels running for the worker in the war plants and other essential business when the present supply is exhausted?

STATEMENT OF RALPH EBBEATT, MANAGER OF BROOKLYN AND LONG ISLAND AUTOMOBILE DEALERS ASSOCIATION

Mr. EBBEATT. The Brooklyn and Long Island Automobile Dealers Association last Thursday evening sent out a questionnaire to 486 new-car dealers listed in the counties of Kings, Queens, Nassau, and Suffolk, asking for the number of units frozen in inventory, number of employees, and number of dependents of those employees. To date we have received replies from 293 dealers out of a possible total of 470, returns showing that 16 dealers had gone out of business since list was last revised.

These 293 dealers report 8,000 units frozen, 4,317 employees still on pay rolls, with a total of 13,144 dependent upon these dealerships for a living. The figures for Nassau and Suffolk are unusually interesting, as all are comparatively small dealers.

Nassau County: Dealers reporting, 87; frozen units, 1,677; employees, 1,623; and total dependents, 2,789.

Suffolk County: Dealers reporting, 68; frozen units, 630; employees, 801; and total dependents, 1,343.

Assuming that the average selling price of a new car today is conservatively \$1,250, Nassau County dealers have an average of almost \$23,000 in frozen assets, while Suffolk dealers average more than \$11,600 in new cars alone. While these assets remain frozen dealers must meet pay rolls and in addition must pay carrying charges, which continue to mount. I believe \$13 per unit per month would be a fair average.

I thought you would be interested in this summary because it is based on facts, not hearsay.

You are familiar with the position taken by the National Automobile Dealers Association, whose president, L. C. Cargile, will undoubtedly present his suggestions to you and your fellow committeemen tomorrow. My comments will be brief as Mr. Cargile will present the dealer plight ably and impressively, stressing among other things the necessity of speedy delivery of bona fide orders placed before January 1.

Nationally, and most certainly on Long Island, automobile dealers concede no priority in patriotism to any other group. They realize that the war must be won; they realize that sacrifices must be made, and the only question they ask is, Is this necessary? I have heard no dealer question the legality of the freezing order, but they believe the Army, Navy, and lend-lease requirements should be ascertained as speedily as possible so details of the rationing plan can be divulged soon. Long Island dealers do not believe that rationing of used cars is necessary, and if Government does take that step or if Government freezes used-car inventories dealers believe they are entitled to know the reasons frankly and fully.

The problems of the automobile dealer may be divided into two classifications—the immediate future and the long-term prospects with the Nation facing a long, difficult war.

Many dealers are anxious to remain in business. In figuring income and expense they must count on full profit per unit if they are to have a chance to survive. They naturally are looking to Government for sympathetic assistance, and they are especially anxious for assurance that the rationing program will not permit the holder of a priority certificate to indulge in unrestrained "chiseling."

Quite likely Government, having frozen assets and regulated sales, will provide means whereby dealers desiring to liquidate their business may do so. Unless this liquidation is under strict control dealers desiring to remain in business will be severely hurt by those anxious to get out. Government control here is essential.

In the matter of long-term problems, two main points come to mind: High showroom rentals and the possibility of including dealer shop space in planning production of war materials.

I believe the claim will not be disputed that the automobile retailer pays higher rentals than any other group of small businessmen. Automobiles require a lot of space for display. Showrooms usually are large, attractively decorated, and located on main arteries of traffic. Rental rates on Long Island range from 50 cents to \$2 per square

foot, and usually leases are signed for a term of years. These showrooms were leased at high rates for a purpose which no longer exists. Right now a new-car showroom can be used only for storage at a most uneconomically high rate. The lease problem is a serious one.

As to the possibility of war work in service stations, unfortunately little of the standard machinery could probably be used, but with the use of vehicles on the decrease and with a probability of repair parts becoming scarcer, many service stations would welcome subcontracts.

Thank you very much for the opportunity to bring these observations to your attention.

The CHAIRMAN. Tomorrow we will hear Mr. Leon Henderson at 10 o'clock, and he will be followed by Mr. Floyd Odum, Director of the Bureau or Division of Contract Information.

Thursday we will hear the independent tire dealers.

SMALL BUSINESS IN THE UNITED STATES

WEDNESDAY, JANUARY 14, 1942

HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE TO CONDUCT A STUDY AND
INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM IN ITS
RELATION TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.

The select committee met, pursuant to adjournment, in the caucus room, Old House of Representatives Office Building, at 10 o'clock a. m., Hon. Wright Patman (Texas), chairman, presiding.

Present: Representatives Patman (Texas), chairman; Bulwinkle (North Carolina), Kelly (Illinois), Fitzgerald (Connecticut), Halleck (Indiana), Hall (New York), and Ploeser (Missouri); Mr. Ira Bird Kirkland, Jr., counsel for the committee.

The CHAIRMAN. The committee will come to order.

As stated yesterday, on two occasions, the hearings will be printed, unrevised, each night after the hearing, and copies will be available the next morning for distribution, of course, free, in limited quantities. Large quantities can be purchased from the Government Printing Office later for a reasonable price.

This morning, we have about 500 copies available and will have 500 more by noon, and we expect to send to each person that appeared here yesterday one of these copies, or if he desires it himself, he may get it by seeing Mrs. Filion here at the desk; and those who entered their appearances here yesterday will also be entitled to a copy which can be obtained either by having it sent to their address or personally seeing Mrs. Filion.

Mr. Henderson, the committee requested that you appear this morning for the purpose of giving us your view about the automobile situation, and anything that you can tell this committee that will assist us in solving this problem, or in making the burden lighter for these automobile dealers, will be very much appreciated.

STATEMENT OF LEON L. HENDERSON, ADMINISTRATOR, OFFICE OF PRICE ADMINISTRATION

Mr. HENDERSON. I beg the committee's indulgence for being a few minutes late.

As you can probably guess the appointment of a top man in the defense organization, the war organization, called for some conferences this morning.

Would the committee like me to go a bit into the history of the events leading up to the freeze order, first?

The CHAIRMAN. And the reasons; yes.

I will state this to the committee: For 3 long months, night and day, we had hearings before the Banking and Currency Committee, and Mr. Henderson was a witness before that committee practically every day, and several nights and on Saturday afternoon, and I never yet have known a witness either before a congressional committee or in a courtroom, to know about every subject as much as Mr. Henderson. I can state that honestly and sincerely. That is the truth.

Mr. Henderson, go right ahead.

Mr. HENDERSON. Mr. Chairman, I have several positions, as you know. One of them is the Administrator of the Office of Price Administration, and we have been in consultation with a panel of the automobile dealers over a long period of time; and, in addition, Mr. Cyrus McCormick and his staff have made several visits to the field in order to try to obtain an understanding of what the problem of the dealer is with a shrinking supply of automobiles.

And I might say that the formula of price on the cars that are subject to the freeze order has been worked out in harmonious cooperation with dealers' organizations.

Second, I have the position as Director of Civilian Supply in O. P. M., and as such I am responsible for the plans and programs for the curtailment of civilian articles that compete because of their raw materials with war matériels.

Third, I am—at least, I think I am sometime—I have been a member of S. P. A. B., which is the Supply Priorities and Allocation Board which, in effect, takes the whole pie of production of any raw material, particularly the critical and strategic ones, and divides it up among the military, the lend-lease, the economic warfare, and the civilian.

You will note that I placed the civilian last, because the division often results in a three-way cut of the pie rather than a four-way cut. That has been true with aluminum, magnesium, and pretty much true with nickel for quite a long time; and it runs into such scarce things as chrome, nickel, and nickel steel, very little of which has been available to the civilian population for quite a long time.

Now, the curtailment program in automobiles got down as a result of your plan and program recommended to S. P. A. B. to about 60 percent of last year's production, and I should like the committee to know that we never had in contemplation in our plan any idea that a time might come, due to the shutting off of any essential material, when we would not have some automobile production for the highest class of needs, that is, of the passenger-car production.

It was plainly apparent last April when O. P. A. C. S. was formed and we first had that responsibility for the equitable distribution of scarce materials among the competing civilian demands, that we could not go forward equitably and allow the automobile industry to continue.

That was from a standpoint of nickel. It was interesting to see how the emphasis shifted from one metal to another. In the early days of contemplation, we would have to cut our cloth according to a shortage of one metal, and the automobile companies through their very able engineers would be able to make a transfer to some other

metal; and, as Congress and the President increasingly recognized the needs for defense preparation and granted appropriations, we would run into a shortage of some other item.

Frankly, one of the reasons that we never foresaw a complete curtailment was our general feeling that the Far East under any circumstances might not be open for tin and rubber.

I think that is one of the essential things for the committee to realize, and I say this not by way of criticism of strategy either on the part of the military or the economic sides, but to the best of my ability, in saying these things, I had always assumed that we would have, whether by way of convoy or other methods, a certain amount of production which would come from material arriving from the areas, Singapore, Sumatra, Java, the Philippines, and the Dutch Indies.

It was evident to us on Tuesday following Pearl Harbor that fats and oils, rubber, and tin would be in scarce supply, and the events—and you know the military events since that time—have confirmed that.

On December 10, we had the automobile in, and the labor group and the management group. Both preferred a 50 percent cut of existing schedules, which called for about 204,000 light trucks and passenger cars for January and for December.

We told them at that time that no real commitments should be made for February until we could study the situation, and the general consensus of opinion of this industry branch meeting with the automobile people was that no further commitments for the processing of parts should go forward; so, in effect, as far as the major production of parts which would eventually go into automobiles, that was stopped about December 10.

Then, we examined our rubber situation. That had to be examined in terms of a rapidly mounting estimate of what was then called "the Victory program," and, as a member of S. P. A. B., I was aware of what the increasing demands might be, and then in the period between Christmas and the first of the year, it began to be increasingly apparent that the President would increase production for 45,000 tanks and for 60,000 airplanes, and accoutrements and paraphernalia and impedimenta that go with those bench marks.

Looking at all the situations, it became evident that we could not continue automobile production; that we could not foresee that; so I canvassed the O. P. M., with the industry, with the Army and Navy, to see whether or not production of automobiles in January would interfere with the conversion which was the obvious theme of the production effort in this big, newly, enlarged war program, and the answer which I got, unanimously, was, of course, that the increased demands to be made on the industry would require tooling up and a tremendous amount of preparation; and on the positive side that there was about \$213,000,000 worth of inventory in the hands of the nine leading car producers which was occupying several million square feet of space. And assuming that we went on a conversion program, that would be in the way. And, also, the January program would mean somewhere between \$80,000,000 and \$85,000,000 of wages for workmen who otherwise might be idle.

As a result I presented this matter to the S. P. A. B., and there was an unanimous decision to curtail automobile production. You may well recall that in that week there was a rising tide of public sentiment to have no more automobile production after January 1; and what, in effect, the decision of S. P. A. B. was, was to make at least 204,000 more and to finish at that point.

Mr. HALLECK. Mr. Chairman, I want to conform to whatever the committee thinks is proper, but a few questions have occurred to me that are in my mind, might be in the minds of some people interested in this problem.

The CHAIRMAN. Would it be all right for them to ask questions now?

Mr. HENDERSON. With one or two more paragraphs I can conclude the sequence.

Let me say that in my capacity as the representative of Civilian Supply, and know what the war program was likely to be and what the limitations on the civilian would be, we could come to no other conclusion, as far as the enormous amount of material to go to the automobile industry; and S. P. A. B., of course, had its decision to make.

I would like to point out that O. P. A., which is the rationing group, operates under the authority of the priorities power which is resided in the O. P. M.

This matter of consumer rationing is very closely identified with price, and we have the Consumers' Division in O. P. A. So, S. P. A. B. asked that this particular job be assigned to O. P. A., and insofar as the organization in the automobile section of O. P. A. under Cyrus McCormick and the work which Mr. Knudsen has done, that is an administrative function which we are carrying out; and the decision, which was made by S. P. A. B., the amount of automobiles, the number, rather, of automobiles, was handed down to us as a quota, and we were told to get busy and arrange for an equitable distribution among the civilian population.

I am available, sir.

The CHAIRMAN. Suppose we alternate this questioning.

I will first call upon Mr. Bulwinkle; then, Mr. Halleck; then, Mr. Kelly; then, Mr. Hall; then, Mr. Fitzgerald, and, finally, Mr. Ploeser.

Do you desire to ask any questions, Mr. Bulwinkle?

Mr. BULWINKLE. I would rather not now because he may answer some of the questions.

The CHAIRMAN. Mr. Halleck, do you desire to ask any questions?

Mr. HALLECK. I do not assume that Mr. Henderson's statement to the committee is completed at this point?

Mr. HENDERSON. I have covered what I would say was the antecedent history leading up to the freeze order.

The CHAIRMAN. I think any question right on that, particular point, without taking up a great deal of time, will be admissible.

Mr. HALLECK. That is what I had in mind.

Of course, Mr. Henderson, all of us were shocked when this order came out because it has far-reaching consequences; and you, undoubtedly, felt that same way about it.

Do I understand from what you have said, that the change from your original idea, which was that there would never be a complete stoppage of production of light trucks and passenger cars, was occasioned by the shortage of rubber following the events in the Pacific?

Mr. HENDERSON. Not entirely rubber, although that is a controlling factor.

Mr. HALLECK. Tin?

Mr. HENDERSON. Rubber plus the amount of production which the president has asked for in the calendar year 1942.

Mr. HALLECK. That is what I wanted to get straight in my mind, because I want to know what the basic reason for the order is, and I think the people in the industry want to know and also that the people in the country want to know.

Mr. HENDERSON. Let me say, Mr. Hallack, that this is not the first one of the orders which has fallen on industry, as this committee so well knows. We have, by curtailment of copper, had to literally put a lot of people out of business, particularly beginning with the first of the year. There were about 100 industries that were forbidden to use copper even after the first of the year, but let me put it this way: The defense program, as contemplated before the war program, was about \$27,000,000,000 worth of defense goods on the existing price level. That was the planned program of which O. P. M. had the general control, and I might say that in October, November and December, it was evident that we were going to make that goal.

Well, that is only \$27,000,000,000 out of what we estimated to be a national income of \$110,000,000,000. But this program, taken together with the enormously increased amount of lend-lease and economic warfare and indirect defense meant that we get up to something like 45 to 50 percent of the national income in the calendar year, and my guess is that if we attain this program and we can only make \$100,000,000,000 national income, the civilian population, instead of having 65 to 75 percent of 1941's available goods, will only have 45 to 50 percent.

Mr. HALLECK. If I might intervene right there, do I understand from that, then, that even though the shortage of rubber occasioned by the events in the Pacific did not now present itself, the demands of the production program for war purposes would be so great as to completely force the automobile companies out of the manufacture of passenger cars?

Mr. HENDERSON. That is correct.

Mr. HALLECK. So that even though a supply of rubber might be available from some other source, you think that this drastic order would yet have to remain?

Mr. HENDERSON. I think so.

Mr. HALLECK. Let me ask you, have you made a careful determination of the ability, or the capacity, of the automobile companies to produce war materials as between the situation that would exist if they converted all of their facilities, say, except the capacity to produce 20 percent of their normal production, as against a complete conversion to war production; in other words, more specifically, could you say definitely to us, and to the Congress and the country, that

the automobile companies couldn't do the job that is necessary to be done as far as they are concerned in the war program, and yet carry on a minimum production of passenger automobiles?

Mr. HENDERSON. From the terms of facilities?

Mr. HALLECK. Yes.

Mr. HENDERSON. I think that they could carry on a minimum program, provided they could get the metal and the critical strategic materials. Let me say, Mr. Congressman, that the determination as to what production capacity can be absorbed in the military is not my function, but I get that from my colleagues in O. P. M. and S. P. A. B.

Mr. HALLECK. It has seemed to me that the making of this drastic order and its maintenance, assuming that the rubber and the steel and other materials might be available for a minimum production, would be unnecessary, an unnecessarily drastic order, unless it should definitely appear that the military requirements, the war requirements, precluded any possibility of going on with normal production, or any part of it.

Mr. HENDERSON. It is not just the matter of the facilities of the automobile industry with this limited amount of critical materials. You just take the question of ball bearings. Take the case of ball-bearing capacity and the chrome that goes in them. We will have to make some easing in order to get 204,000 cars built this month. That is, either some essential war material has got to wait right today and the next several days, or we cannot build these 204,000, but the thing we have to determine is: What is the most equitable distribution among the competing civilian demands? In effect, we fit in the Civilian Supply as the aggregate consumer, and S. P. A. B. has said to you, for all the uses you have—communication, transportation, food, machinery, agricultural equipment, everything else—"This is all you are going to get, Mr. Consumer; which is the highest and the latter of your choices?"

Now, we have that decision to make, and then, in addition, we have to try to determine what is the most efficient use of metal in terms of labor power, and I can say that there are several industries, several industries that could take the amount of material that is chewed up in 204,000 cars and make it go further as far as pay rolls are concerned.

In other words, the ratio between labor employment and the material unit is higher than in many other industries, so we have a whole category of choices to make in this, so it is not just one thing that made this determination.

Mr. HALLECK. Just another question or two, Mr. Chairman.

You referred to advising with the industry. Did that include the part of the industry that is represented by the dealers and their people?

Mr. HENDERSON. Yes.

Mr. HALLECK. Do you have an advisory committee, Mr. Henderson? Do you advise with that committee in each case before these orders are entered?

Mr. HENDERSON. On this particular order, as to entering; no. We do not enter this order. When you are faced with a rationing, when

you are faced with such a rationing, you freeze immediately your supply. You do not tell anybody, that is, if you can help it.

Mr. HALLECK. I understand from that, prior to the time this freezing order was entered, that you didn't confer with the dealers or their representatives?

Mr. HENDERSON. We had talked with the dealers over a long period of months as to this possibility.

Mr. HALLECK. That was at the time, though, when you were still not contemplating the complete cessation of the production of passenger automobiles?

Mr. HENDERSON. That is correct, but the dealers realized, as we do today only too acutely, that there would be a diminution, that you couldn't keep the automobile business going.

Mr. HALLECK. I think, Mr. Chairman, that is all.

The CHAIRMAN. Suppose you finish your statement.

Is that agreeable, that he be allowed to finish his statement before we question further? Without objection, he will go ahead.

Mr. HENDERSON. Well, we have—I presented yesterday to S. P. A. B. the general outlines which we would like to follow in the rationing of the automobiles being made this month and in the hands of dealers, that is, the unfreezing.

I asked, and obtained, a continuance until February 2 of the freezing order except as it has applied, of course, to military vehicles, that has been a general exception, and they have been passing out. And, as I said previously, we would announce as of the 15th, or earlier if possible, what to me was the acute question, that is, of the dealer himself, and I felt, Mr. Chairman, that there has been no impression that we have not been aware and sympathetic to the problem of the dealer in this.

In general, we expect that there are about 550,000—between 550,000 and 600,000—cars, new cars, that are subject to the rationing. We propose that of the automobiles that are coming off the line from here out, that they will pass to the dealers, and of that number which would be, oh, somewhere between 130,000 to 140,000, that they might be frozen for a year; that is, we have got to look forward to a longer period and what I call the super-A. A. A. demands for the new automobiles have got to be served, and we must, of course, get a stock pile and keep that stock pile.

As to the remainder that is available for rationing, we have the general terms of the issuance of those, and in the main, it will follow the tire-rationing order and will be done through the local rationing boards which we have set up. We have about 5,000 local rationing boards already set up throughout the States and local defense councils, that is, when the S. P. A. B. turned over to me, as Administrator of the Office of Price Administration, the job of rationing the tires, we had to create, overnight almost, a mechanism for passing on the request, and we have these rationing boards that were set up.

Now, on the automobiles that go out, we expect to fix a maximum price which will be the manufacturer's list price plus the Federal excise tax plus transportation allowance at carload rail freight from factory to dealer, and an additional further allowance of 5 percent of the total

list price and transportation allowance, or \$75, whichever is lower, for handling and delivery. This is in effect formula A that we discussed with the panel. This is what is known as formula A. It is the so-called 5-percent formula.

Now, I would like to emphasize, Mr. Chairman, that this determination of this price preceded the price. I am isolating this price matter from the mechanics of the rationing of the cars. For several months we have been talking with the dealers as to the selling of new automobiles, and this is the formula A that was discussed with them on the meeting of December 1, and subsequently in informal discussions.

Now, these automobiles, the sum of 130,000 to 140,000 that we expect to freeze for a year in stock piles, will be offered to dealers for storage, and when they are sold, the dealer will be entitled, in addition to this price which has been fixed as a selling price on these cars, to a further amount equal to 1 percent of the list price, or \$15, whichever is lower, for each month after February 1, 1942, that he has, in effect, acted as the Government's storage warehouse for its stock pile of automobiles.

In the main, that is the provision as far as the dealer is concerned.

Now, there are one or two other items relating to tires and tubes and to the understanding that the cars will not be released unless the specific release is given by the rationing authority, but, in the main, they are the elements of the plan for the dealers.

The CHAIRMAN. Mr. Ploeser desires to ask a question.

Mr. PLOESER. On the point of the allowance of storage, is that to be added to the sales price to the customer?

Mr. HENDERSON. Yes.

Mr. PLOESER. In other words, the consumer who is rationed an automobile will have added approximately a 6 percent increase to the price of the car?

Mr. HENDERSON. Five percent, or about \$75.

Mr. PLOESER. I am talking about the one at the end of the month.

Mr. HENDERSON. Yes; that is it.

Mr. PLOESER. In other words, your price-fixing, then, is on a gradually increasing scale on a monthly basis?

Mr. HENDERSON. Well, that is storage, that is additional charges which are not a handling charge. See, the dealers are the best people for taking care of an automobile. [Laughter.]

The CHAIRMAN. Let us have order. We will not have any expressions of approval, or disapproval, please.

Mr. PLOESER. Have you taken into consideration the fact that so many of these dealers have to finance these cars in order to be able to store them in stock?

Mr. HENDERSON. That is covered by the 1 percent.

Mr. PLOESER. That is, covering the finance charges and the space in their plant to store it, and the maintenance of the automobile. An automobile deteriorates whether it is used or not.

Mr. HENDERSON. Yes; that is the price, Mr. Congressman, to this lock-up of about 130,000 to 140,000 cars, and no dealer will be compelled to take automobiles, that is, as they go out from the factories. That is the offer that will be available to him.

Now, on the rest of the cars, as far as possible, we would like to get those into the hands of the people who are entitled by the highest classification of priority to have them, for several reasons.

One of them is that obviously the dealer and everybody else would suffer if these things were tied up for a longer period of time, and the second, that is the transportation which would be acutely needed, particularly by the military authorities, the States, and others.

Now, one other matter which I am not prepared to make the full determination on, as far as used cars are concerned, that is something which Mr. McCormick and the rest of us have been generally concerned with for a long period, and we want, when we work out the arrangements on used cars, to make them in such terms as will contribute toward the dealer maintaining some status in the commercial life, that is, it is our intention on that to go as far as we can in order to keep that very necessary servicing because obviously with a curtailment of new cars this precious stock pile of several thousand automobiles becomes all the more valuable.

We must maintain a high ratio of repair parts, and we must do everything we can within the framework of the business, to see that as many dealers can continue and render that service.

Just one more thing as to my statement. This committee, by reason of its studies, not just devoted to the car dealer but to all our small business and the weights that fall on it by reason of the war program, will know it is not possible within the framework of handling these new cars, to maintain the dealer's structure; that outside of the Government's fairness in its dealing, the Government can be just as fair, extra liberal and everything else, and if it chose to pay a bonus on the remainder of this, it could not take care of these dealers. It has got to think, if it is going to do anything by way of governmental intervention, of all sorts of mechanisms and procedures and policies which are not strictly a part of the freeze order, the rationing, or the price-fixing, the allocation, or anything else; that is, there is only a part of the problem, that is, the problem of the Government's fairness to the dealers on this remainder of car production for the duration, and I do not believe that I am a competent witness to testify on that, although the committee will remember that, on T. N. E. C., we devoted several days and some part of nearly every one of our discussions, to the small dealer. For example, the position of the small dealer in the petroleum industry had a tremendous amount of attention at the T. N. E. C., but I am not qualified to testify and I would like not to be examined on that.

I think that that is about all I can make in the way of a statement.

Mr. KELLY. Mr. Henderson, prior to this freezing order that was issued on January 1, I heard Mr. McCormick telling you there that a survey was made in the field concerning the automobile industry. Was there due consideration prior to the freezing order given about the vital effect that it would have upon the automotive industry in general, and if so, how many months prior to the freezing order was that survey made?

Mr. HENDERSON. Well, the first assignment to me was under the old Executive order creating O. P. A. C. S., the Office of Price Administration and Civilian Supply, and I should say that certainly by the end

of June we had begun to give our attention to that, both in the Price Administration and in the civilian end of things.

Mr. KELLY. What I would like to determine is: Many automobile dealers have called my attention to the fact that orders for new cars were allowed to be taken by them from the producer as late as the month of November and that no notification was served upon them whatsoever that there would be this curtailment.

Mr. HENDERSON. The determination was made, Mr. Congressman, as I said, at a meeting of S. P. A. B. the day before New Year's.

Mr. KELLY. Was the distributing end of the automobile business considered?

Mr. HENDERSON. One of the purposes of my delineating at the beginning of the various jobs that I hold was to indicate that, in my particular person, we had the information that would come through the Automobile Section in Price Administration under Mr. McCormick, and on the Civilian Supply under Mr. Weiner and Dr. Burns, together with what I was getting at S. P. A. B., and my general knowledge from having been in the defense effort from the day of its inception.

Now, I can give you a categorical answer, yes; because we have a requirement in the Price Administration that our Industry Council, which is separate from the price group, represents the retailers, the distributors, the manufacturers, that they take that point of view in connection with any price determination.

What you are getting at is, "Did I at any time tell anybody in the industry or the distributing end that we were going to freeze cars on January 2?" and the answer is, decidedly "No."

Mr. KELLY. I appreciate that, and I know that and they know it, but what I am trying to determine is whether this order just came out of the sky and was given without any due notice or notification to these men that were in this industry, or to stop them, or put them out of business overnight.

Now, many of these men had been accepting orders on cars, and certainly some consideration or notification should be given them by the producing end of the automotive industry where that curtailment might take place, and they might tell these customers, which at the present time there are many, that they can get only so many cars.

Mr. HENDERSON. If you are talking about the cars which the people have contracted for, that were caught by the freeze order, where there is a possibility of a local board making an objective test that there had been a bona fide purchase under a set of standards, they will be released.

Mr. KELLY. They will be released, no obligation?

Mr. HENDERSON. No; there will not be an obligation. That is, a man who has bought a new car, say, in Massachusetts, and went through everything except actually taking delivery, went through everything before the freeze order was issued, that individual will be able to get his car.

Now, we reserved announcement on that until we would know whether or not there were higher uses for those cars.

Mr. KELLY. Couldn't that be determined before the freeze order was issued?

Mr. HENDERSON. No.

Mr. KELLY. I am just going to give you an illustration. When I was leaving Chicago, coming down here after New Year's, I happened to see a Buick agency that I passed by on my way to and from the train. They had about 15 brand new cars just delivered. Those cars were all sold before delivery, and yet that man can't dispose of those cars.

Now, he went through an obligation probably to finance. He probably went through an obligation with a financing organization that he did business with, or through the banks, and also the individual, he probably went through an obligation to get that car.

Now, why should those cars be frozen in that agency?

Mr. HENDERSON. Well, put it this way: We do not know, right this minute, we do not know this minute how in the name of God we are going to make all our rubber piece out. You can't tell me. The armed forces can't tell me when this war is going to be over. If that is the case, and you have got precious little of stock, and you have that responsibility, you are going to look at that particular confluence of coincidents there and say, "If you are a Government official, I am going to see whether the Army is going to need that." Suppose it was a light delivery truck, and the Army wants that truck that very day. If you let it pass, then if the Army wants it, the Army has to go through a very detailed procedure when obviously the need of the military ranks is higher than these other needs.

Now, we are going to release them, and, Mr. Cargile, I will ask you, if we allow a bona fide purchaser on February 1 to get his car under formula A, will not the dealer be satisfied as to the deal that he gets, that is, the profit and things like that?

Mr. CARGILE. In general, yes, subject to the qualifications you made that he go through everything. That might mean completing the contract, paying the balance of the down payment. If it can be made on a basis of merely an objective proof that there had been a bona fide contract, yes.

Mr. HENDERSON. In other words, the freeze, Mr. Kelly, is for the purpose of letting the Government take a lot of things. This is not a simple procedure in a country like this. It is like what Emerson said one time when they offered him a grape and he refused it by saying, "Why should I stir up my complicated mechanism of digestion just on account of one grape?" This whole mechanism for determining, and this whole country with a precious little supply, to see who gets it, who is going to get it, when you get hit on the face with all the things that we have had since Christmas and New Year's, it is not an easy thing, so we chose to ask that things be frozen.

Now, if a few individuals were inconvenienced, to my mind that is a lesser disturbance than if on the west coast the Army or Navy want a truck; they should be able to get that truck without the inconvenience of going through all the circuitous route. I will defend what we did in the matter of the freeze any time.

Mr. KELLY. The purpose, ultimately, is for the conservation of rubber more than anything else, is it not?

Mr. HENDERSON. No; now, it happens that rubber is an extremely acute thing, but chrome is acute. Copper is acute. If I were to tell

this committee about 22 items that go into automobiles, as to what we have got to do, I think it would be readily apparent that it was not just rubber. The automobile is the product of an industry that has made the most efficient use of the best alloy steels, of aluminum in their pistons, the reduction in weights, of getting higher power out of lighter materials, and the use of plastics, and when you are looking at an automobile, you are looking at every damn thing that the Army and Navy needs.

Mr. KELLY. Of course, it wouldn't be a shortage of steels and some of the materials that you have just specified?

Mr. HENDERSON. There wouldn't be a shortage of steel? We have had to take valve steel away from military purposes in the last 2 months in order to let automobile production go on.

Mr. KELLY. Why is it that all these junk yards are loaded with steel at the present time?

Mr. HENDERSON. That is scrap. I am talking about valve steel, which is a very special steel of which there is a shortage.

Mr. KELLY. What inroads have been made to have these junk dealers dispose of that steel?

Mr. HENDERSON. That is not my department, again.

Mr. KELLY. Well, I will withdraw that.

Mr. HENDERSON. There are 15 men on the road, as I happen to know, ginning up the delivery of those graveyard materials. May I say a word on that scrap thing?

The CHAIRMAN. I wish you would, Mr. Henderson. It was testified here yesterday, and we had evidence of it here last week, that the junk dealers are hoarding vital scrap; that in the name of patriotism they accumulate it, yet they hoard it and will not sell it.

Mr. HENDERSON. We run into that, some. It is the old thing—the chiseler. You will run into that. Some of the Governors and some of the mayors of the cities have been very helpful on some of those things, but, in the main, those fellows—hell! they like to bargain a little bit. They may hold it back for a day because there was a period in 1940 when it looked like there was a boycott on those fellows; nobody would buy their stuff, and they are traders. We are keeping that business still in the business of trade, but let me point out this: Last week, the steel industry operated at a capacity of 97.2. The steel industry from the fall of 1940 has been operating at the highest level that it ever operated. The total amount of tonnage is a magnificent amount. That was only possible by the delivery of 30, 40, 50 percent, in many cases, more scrap to them. Now, that last 2 percent or 3 percent that would bring you up to 100 percent of operation is hard to get. That is due to the fact that part of the scrap material is way out in remote areas. There you will not have those compressing machines to bale it up, to make No. 1 or No. 2 scrap, but pretty generally the mechanism for the collection of scrap metal has been very, very good, and it is going to be better. I do not want to spoil the effect of it, but I know that the program that is ready in O. P. M. for scrap collection is going to be adequate.

The CHAIRMAN. Mr. Henderson, I would like to ask you two or three questions, and then we will alternate. Are you discouraging the use of cars, or do you expect to discourage their use?

Mr. HENDERSON. I will put it this way: We expect to encourage the greatest conservation in the use of rubber.

The CHAIRMAN. Do you expect to discourage the use of a car for an unnecessary purpose—pleasure riding and things like that?

Mr. HENDERSON. That is right.

The CHAIRMAN. Yesterday we heard every person who came here who desired to be heard before this committee. Today, we would like an opportunity to submit questions to you, and if you are not able to answer them here, we will probably not submit them to you now, but we will submit them to you after the hearing, in writing. We would appreciate it if you would try to get them answered by the time the revised print is made; in other words, we will have the testimony printed tonight just like it is. It will be the unrevised copy. Later on we will have the revised copy, and then we would like to have the answers to those questions inserted.

Will that meet your approval, Mr. Henderson?

Mr. HENDERSON. Yes.

The CHAIRMAN. So I will ask anyone present who desires to ask a question of Mr. Henderson, to write it out and submit it to one of the members of this committee, and we will probably not ask it today, but we will deliver these questions to Mr. Henderson, and he has agreed to submit the answers in writing for the printed record which will be available on a subsequent date.

Now, this formula A that you have talked about; have you submitted that for the record?

Mr. HENDERSON. I think in effect that I read it into the record.

The CHAIRMAN. Have you submitted the order that has been issued relative to the freezing of the cars and the rationing of the cars?

Mr. HENDERSON. Well, no; there is only one order and one amendment to that.

The CHAIRMAN. Will you put them in your testimony, Mr. Henderson?

Mr. HENDERSON. Yes.

The CHAIRMAN. All right. Now, the cessation of automobile production and the rationing of tires will inevitably mean a greater demand for servicing the cars in use. Do you think it desirable that everything possible be done to keep dealers in business in order that they may be able to service these cars?

Mr. HENDERSON. Yes; and I am glad that you put it that way. Here is this necessity for servicing, and we ought to make sure that that opportunity is preserved.

The CHAIRMAN. What about parts, are you going to furnish parts for cars, or permit the furnishing of parts?

Mr. HENDERSON. One of the first programs that the Civilian Supply had was for an increase in parts, and we just last week recommended an increase in that, based upon a recent decision.

The CHAIRMAN. Do you expect to furnish parts for the cars that are used for necessary purposes as much as you possibly can do so?

Mr. HENDERSON. Yes.

The CHAIRMAN. And do you believe you will be able to fill that demand for the necessary purposes?

Mr. HENDERSON. What we will do on that, if I still represent the civilian committee, and I am at the place where they will dish out the material, one of the things that I will try to insist on, even though it means a delay, or a curtailment, elsewhere, or a conservation elsewhere, I will insist on enough material for repair parts.

The CHAIRMAN. For repair parts. What about rubber? Will you try to furnish sufficient rubber to recondition the tires, or recap the tires for all necessary uses?

Mr. HENDERSON. We have some plans in mind for making our crude rubber go as far as we can. I think it will be obvious to you, Mr. Chairman, that this new program which contemplates—how many billion dollars was it the President asked for?

The CHAIRMAN. You can state \$100,000,000,000, but, of course, it was a little less than that. What he stated, I think, was about \$59,000,000,000.

Mr. HENDERSON. The stepping up of those essential items means that an enormous amount of recalculation will have to be made as to what the military demands are going to be, and a lot of the demands are going to be in terms of strategy that is still being determined—where do you fight? Where do you throw your production? When we know that, we will know how much the civilian community will have to take in its belt. In effect, as I say, on Civilian Supply, we undertake to estimate what is necessary to keep this economy going—that is, we undertake to estimate how much rubber is necessary for the railroads. The railroads use a lot of rubber and they are an essential part in keeping the economy in high function. We will go into S. P. A. B. and make a request for that much, and then for any additional that we can get, we make our plea, but in the last analysis, what happens is, S. P. A. B. carves out a piece of pie and says, "Mr. Civilian, you have got to get along with this."

Now, I can't tell you today what that means in terms of tires. What I think it means is that people who have tires now on their automobiles and are not in the highest preferred classes better regard them as being more precious than gold. I think that we will be able to persuade the highest authority than when we get to choices on crude rubber, that we ought to have enough to keep these essential classes going. I am hoping that we will have enough, so that on retreading, the defense workers and clergymen who have got to go on visiting tours, that the delivery wagons, those people in the next classification of demand for tires, will be served.

But all that is going to depend upon how soon we lick the hell out of Hitler. They have got to tell us when do we get back into the Pacific, and until you know that, you have got to say: "That is something that you cannot give away."

Mr. BULWINKLE. Mr. Henderson, I wonder if, in your regulations as to the rationing of tires as it was reported to me the other day in North Carolina, the dairymen were refused tires but yet the liquor stores got them?

Mr. HENDERSON. I would think that there is some qualification on that case, because it would not be true for retail delivery unless one of these board members made a bad decision. Here is what we do: We allocate to every county a certain number of tires, and that number of tires is not enough to serve all the applicants that will come in,

even in the preferred classes, so those local people sit there and determine who gets them. Now, if they gave it to a liquor dealer, they were violating both the trust that we put in them and also the schedule.

Mr. BULWINKLE. Do wineries come under the preferred classification?

Mr. HENDERSON. No, sir.

The CHAIRMAN. If you please, have you finished?

Mr. HENDERSON. On the matter of delivering livestock or grapes to a winery, yes; as we have provided. You see, our farming communities have grown up to depend on delivery of their produce by trucks. Now, we have allowed that.

Mr. BULWINKLE. Wouldn't the same thing apply to dairies?

Mr. HENDERSON. No.

Mr. BULWINKLE. How are they going to get the milk to the towns?

Mr. HENDERSON. You mean "dairies"—to the towns?

Mr. BULWINKLE. Yes, a dairyman that lives out in the country.

Mr. HENDERSON. If it is a delivery from a farmer to the dairy, they would be in.

Mr. BULWINKLE. In any number of places all over the United States, the farmer has a small dairy that he owns and they deliver their produce to town and to their customers in town.

Mr. HENDERSON. Keep in mind that we are really hog-fat with rubber right now, things like that. What we have done on rubber tires is not going to prevent the trucks that have been actually delivering from continuing. In addition, recapping has been working full time, and we expect to do something about it.

Now, Mr. Congressman, there is going to be a mistake made here and there. What I am trusting is that you will look at what these local boards do in the aggregate, as to whether or not they are serving the essentials.

Mr. BULWINKLE. I am looking at that, and I understand it, but I say on the one hand that the man who has grapes to deliver to a winery has a preference over the farmer who has milk to deliver to town.

Mr. HENDERSON. Oh, no; not the farmer who has milk to deliver to town.

Mr. BULWINKLE. Or the dairyman, or the large dairyman.

Mr. HENDERSON. I think the dairyman also, on his transportation, is covered.

Mr. BULWINKLE. That is just what I wanted to bring out.

Mr. HENDERSON. May I go ahead?

The CHAIRMAN. Yes.

Mr. HENDERSON. This is a fairly important point [reading]:

On a truck operated exclusively for one or more of the purposes stated in the preceding section, or one or more of the following purposes, transportation of ice and fuel, transportation of material and equipment for building and maintenance of public roads, material and equipment for construction and maintenance of public utilities, material and equipment for the construction and maintenance of production facilities, material and equipment for construction defense housing and military and naval establishment, transportation essential to rendering roofing, plumbing, heating and electric repair service, transportation by any common carrier, transportation of waste and stock materials, and transportation of raw materials and semi-manufactured goods and finished products including farm products and foods: *Provided*, That no certificates shall be issued for a

new tire to be used for transportation of commodities to the ultimate consumer for personal, family, or household use, or transportation of materials for construction and maintenance except to the extent specifically provided above.

Now, keep in mind that all of those, everybody out there can't go in and get a new tire now. There is a limited number of tires that are available on this month's quota. What I am saying is that in every effort we make we expect to try to enlarge the amount of supply that is available so that we can keep this Nation on wheels.

Mr. BULWINKLE. Another thing, Mr. Henderson, I think it came out in the evidence here yesterday. I remember a gentleman from St. Louis had a milk truck and glass containers in the truck to deliver his milk. That is frozen, too. Are you taking any steps to release things like that?

Mr. HENDERSON. Sure.

Mr. BULWINKLE. And various and sundry other things?

Mr. HENDERSON. Those special jobs for special purposes.

The CHAIRMAN. I want to ask one more question, and we will then alternate, if you please.

Have you finished, Major?

Mr. BULWINKLE. Yes.

The CHAIRMAN. Now, about reclaimed rubber. I notice a statement made that there is sufficient rubber in the country to make 600,000 tons of reclaimed rubber; that is, rubber that has been cast aside is not being used. What is your opinion of that statement, Mr. Henderson?

Mr. HENDERSON. I guess that over a period of years, that would be the only thing to do. You could get about 1,100,000 tons.

The CHAIRMAN. 1,100,000 tons.

Mr. HENDERSON. In 2 years.

The CHAIRMAN. In 2 years?

Mr. HENDERSON. Yes.

The CHAIRMAN. Has that been taken under consideration in making these orders?

Mr. HENDERSON. Yes; but your reclaimed rubber is only usable with some crude. You take the amount that S. P. A. B. has allotted to us, that is, in terms of crude, but that will be multiplied two and one-half times by reason of being used with the reclaimed.

Do I make my point clear?

The CHAIRMAN. You use about 40 percent virgin rubber?

Mr. HENDERSON. No; I will put it this way: In some cases you get down to about 20 percent, but there are some things for which you cannot use reclaimed rubber. I am taking the totals. Let us say that we have got 15,000 tons this month for all civilian use. We would probably get for civilian end of production something like 45,000 or 50,000, but you would get that by using, say 5,000 of your 15,000 total tons in reclaimed rubber.

The CHAIRMAN. All right. Now, we will alternate.

Major, had you finished?

Mr. BULWINKLE. Yes.

The CHAIRMAN. All right.

Mr. HALLECK. I just have another question or two, Leon, that I would like to ask and have cleared up.

Many of the dealers have talked to me, and I listened to their testimony yesterday, and I became rather well convinced that even

if all these cars were sold out the next year that seemed to be available, they could not maintain their present establishments and remain solvent.

Now, whether it is from a shortage of materials or the necessity of adopting all of the facilities of the automobile factories to war production, is it your present view that for at least as long ahead as we can see at this time, after the present quota that has been fixed for January is built, there will be no more passenger cars built?

Mr. HENDERSON. That is correct. Let me say that I would like to have more automobiles.

Mr. HALLECK. I recognize that. I would not contend with you a minute about that. But in making this freezing order, as I understand it, you had certain representation from those in charge of the military program that led you to believe that the full facilities of the automobile factories would be needed in the war effort?

Mr. HENDERSON. If you mean that anybody in authority told me that all of the special purpose machinery, automobile assembly lines and so forth, would go directly into automobile production, no. If you talk about their energies, that is, the amount which the Government expects to ask of the automobile companies to be made outside of their new munition plants that they have constructed like the Chrysler plant, they will be as much as or in excess of the total dollar production that they made in their peak year on automobiles and trucks.

Mr. HALLECK. I think maybe my question was a little unfortunate. What I had reference to was a condition under which requirements would be such that they would devote all of their energies, as you put it, to the war effort as distinguished from the production of passenger automobiles, and the only reason I am asking the question is that I am convinced that a lot of these dealers want to know. It is the uncertainty of the prospect before them that disturbs them.

Mr. HENDERSON. We found that, Mr. Congressman, beginning with June of last year, particularly with any group of the citizens, if you make an explanation as to why the Government has been compelled to do this, they will go along.

Mr. HALLECK. I am convinced of that, too; and, without being critical, a time or two, maybe, they haven't been told as much of the story as that they might have been, which has resulted in some dissent and some difference of opinion.

Now, is it your view that from what you learned of this situation, that even though, say, the supply of rubber, either synthetic or South America, should be increased, and other raw materials going into automobiles being increased, you can't see any prospect in the changing of this order in respect to the curtailment of the production of automobiles?

Mr. HENDERSON. No; I wish there were. I wish there were something we could do with the parts that will still be unassembled at the end of this month.

Mr. HALLECK. And of course that has nothing to do with the price of automobiles at hand; that is, shortage of materials presently existing. But assuming that a dealer has a large establishment with a number of new cars on hand, and a considerable pay roll, don't you think that the Government ought to give him some option under

which he could get the money out of that stock and close up his establishment, rather than to force him to continue on and on and on under a ration order that might freeze him out?

Mr. HENDERSON. Yes; and that is what we propose to do. These eligible classes that can come in and get these new automobiles that are not going to be held for a year will go out pretty quickly.

Mr. HALLECK. That brings me to a further question.

What assurance can you give these dealers that the automobiles that are designated for sale and delivery in 1942—and I understand those are the cars that they now have on hand—will go out under the rationing order? I am constrained to ask that question, because in my home town out in Indiana, I think the way they are rationing automobile tires there, month by month, we have got about a 20-year supply.

Mr. HENDERSON. I think, on that point, the time when you can go without best is when you have got the most fat on you. So, the amount that was a load this month was based on your ability to get ahead, and also the fact that January is the month in which there is the least amount of burning up of rubber. You see, rubber doesn't really wear out, it burns out, and that is the reason for that.

Mr. HALLECK. Do you have any contemplation, in the carrying out of this program, of any arrangement by which the Government, having said to these dealers that they cannot sell their automobiles—and many of them have great stocks of tires, too—do you have in contemplation any arrangement by which, if they want to get out or cut down their establishment to run a service place in used cars, the Government will take over those cars if they want to turn them over to the Government?

Mr. HENDERSON. Oh, yes; we have arranged that they can sell them to another dealer. We have arranged the same thing on tires.

Mr. HALLECK. Suppose that they cannot find another dealer that wants to buy them?

Mr. HENDERSON. Let me put it this way: You asked me a direct question about the Government taking them. We have always contemplated, independent of anything that has gone on, stacks of telegrams, or anything else, that that would be done. There never has been any punitive disposition on the part of the Government to penalize any dealer in this business. We have asked for a freeze in order to look around.

Now, as far as the cars that are going to go out this year, they will go out fairly fast. When a dealer is locked in for some reason or other, we will make the arrangement to see that he can clear up and get out. We are doing that with tires, and we are doing that in the situation that you just spoke of. In fact, we have a special group in our industry council that works on plans with the Treasury and R. F. C. for that.

We are quite a long ways on that. In fact, the first job to which we addressed ourselves after the issuance of the order was this question of the tie-up which came by reason of the financing arrangements. The committee can rest assured on that.

Mr. HALLECK. I only inquired, not being critical but believing this action of the Government—it is not eminent domain, but it approximates it.

Mr. HENDERSON. It is war, Mr. Halleck.

Mr. HALLECK. It is war, and we are all for winning this war; and I listened to all these fellows yesterday, and there isn't a one of them that is not willing to do what he can to win it, but I know that I feel and you feel that they have certain rights, and the Government, when it takes certain lines of action, has certain lines of responsibility; and it seems to me that definitely is one line—

Mr. HENDERSON. Sometimes it is forgotten, and I know you and I wouldn't forget it.

Mr. HALLECK. I never have forgotten it.

Mr. HENDERSON. If you sat at my desk day after day, you would begin to wonder if some people didn't forget it.

Mr. HALLECK. We are sitting at our desks, and we are, probably on occasions, wondering about those things; and when you interrupted me, I was undertaking to say that I am glad to hear here today, though I had no reason not to have believed that it would be done, that the Government is at the moment giving due consideration to some of these problems of responsibility that have been addressed to me, because as a Member of Congress, I am something of a contact man between the people of the country and the Government in Washington.

Mr. HENDERSON. I want to tell you what I said to Knudsen when we started talking about all we had to do.

I said: "Bill, don't you think that the dealer is the best man to take care of an automobile if the Government has to store it?" Keep in mind, I did not know what the demand from the Government or military was going to be at that particular moment, and he said: "Yes."

From that time on, we have never varied on that, and I went to Cyrus McCormick, and I said: "McCormick, when this goes out, shouldn't we adopt a formula on the price the dealer should get?" That was done immediately.

You might be interested in what Knudsen said. He said: "Yes; because I think it is a smart move, because I had to store cars in a warehouse one time and I had to repaint most of them because of what the birds did."

So, it has always been our intention that we would ask the dealers to hold these cars in stock and that they would be recompensated for it; that we would not compel them to hold things at a loss.

Mr. HALLECK. In respect to the taking care of things, I know that a lot of these dealers have great stocks of tires, and many of them do not have very good places to store them; and, so, there might be, not only an advantage to them but an advantage to the Government, having regard for the future necessity of tires, to take them over.

Mr. HENDERSON. There is already a plan for taking over the tires.

Mr. KELLY. I would just like to ask Mr. Henderson a question or two. In the manufacturing of these tires, is that going to be distributed among the manufacturers of this industry in the tire business, or is it going to be rationed out to certain rubber people for the continuation of manufacture?

Mr. HENDERSON. It will be made for military vehicles.

Mr. KELLY. It will not be distributed to various tire manufacturers throughout the country?

Mr. HENDERSON. The tire manufacturer will deliver those as original equipment to the company that is making a military vehicle.

Mr. KELLY. The reason I asked that question: There was a man from Chicago that I met in the tire business manufacturing tires. He had to lay off 1,400 employees during Christmas week, and he informed me that the Big Four rubber industry in this country has gotten complete control of the manufacture of tires and that they would not distribute it to manufacturers of his capacity. I think, in due fairness to these manufacturers, there certainly should be distributed enough crude rubber that there will be an equalized distribution to keep these factories going, don't you think so?

Mr. HENDERSON. That is not my responsibility. I do not like to pass the buck. I have nothing to do with the placement of contracts, but I might be glad to hear about that.

The CHAIRMAN. Mr. Leonard W. Hall, of New York.

Mr. HALL. Mr. Henderson, we have talked about used cars here this morning and yesterday. Have you under consideration the rationing of used cars in the hands of the dealers?

Mr. HENDERSON. I asked Senator Murray's committee to be relieved from answering that question, because if you say "No," you then get into a situation where it looks like a breach of faith. If I say "Yes," it precipitates all kinds of speculation. What I would like to say in connection with the handling of used cars by dealers, we expect in anything we do to be helpful in any arrangements, financial or otherwise, that will help to keep that dealer in business.

Mr. HALL. In other words, you have it under consideration, but you haven't reached any consideration, one way or the other?

Mr. HENDERSON. You didn't respond to my request.

Mr. HALL. I will not press the question, Mr. Henderson, this problem was apparently faced over in England also, and I realize they had over there perhaps the shortage of gas to contend with also. Do you know how the whole problem was met in England?

Mr. HENDERSON. They are down to about 3½ percent of their former use of passenger cars. They just simply did not make any more cars. They rationed gasoline and all the other things that go with it. My understanding from Lord Beaverbrook, just the other day, was that they intend to pull their belts in even further on the matter of the use of rubber.

Mr. HALL. Are they rationing used cars in England?

Mr. HENDERSON. I think not. I don't think Germany is rationing used cars either.

Mr. HALL. Someone asked me this question yesterday. I have forgotten whether it was in the hearing or in private conversation: Have there been talks with the automobile producers with the idea that they might produce, say 20 percent of the production of 1941, and have they taken the attitude that it would not be economically sound for them to produce cars in that small number?

Mr. HENDERSON. No; not to the best of my knowledge, certainly not to me. What they have said is that once you have shut down a line, shut down the flow of materials, of hundreds of materials, from your dealers, and you have got to contract with them in advance, it is very difficult to start up again.

Mr. HALL. That is all.

The CHAIRMAN. Mr. Fitzgerald, of Connecticut.

Mr. FITZGERALD. Mr. Henderson, there is a great deal of concern among the public about the taking over of private cars. It has been said in the newspapers that O. P. M. was contemplating taking them over, and then I read where this was denied. Could you tell me if there is any intention on the part of your department of taking over private cars?

Mr. HENDERSON. There is no intention of taking over private cars.

Mr. FITZGERALD. In view of the fact that the rationing of cars would reduce the number of cars that will be on the highways, are there any plans being contemplated for the transportation of defense workers that travel a great many miles?

I have also read in the papers where most of our largest railroads say it is impossible to take care of the transportation of these workers. I know in my district, which is in Connecticut, and which, as you know, is a defense area, the arsenal practically of the country, that there are defense workers traveling as high as 100 miles a day.

What is going to happen to them when these automobiles are going to be impossible to obtain? What is going to happen to them when the railroads claim that they cannot provide transportation for them and the Government says that we cannot now build houses enough for them and that we have got a shortage of building material at the present time? I am wondering what are going to be the plans of the Government to take care of these thousands—yes, hundreds of thousands—of defense workers working in the sections of the country where it is almost impossible for them to obtain transportation and almost impossible for even busses to get there?

Mr. HENDERSON. In the first place, when you have got 27,000,000 vehicles, you have got a very substantial stock pile. Your question on the defense worker is, of course, rubber for tires. Now, we have been at work on that, with Sidney Hillman and his group. In fact, I asked Sidney to appoint a man from the labor group to work right with us on that problem. As the matter now stands, new tires are not available for defense workers as a class. There are not enough new tires for all of the much more emergent uses.

As fast as we can, we will try to make available retreading facilities if we get enough rubber so that we can use it. We will use it in, say, a "Victory" tire, which will be a small amount of crude rubber with a lot of reclaimed. The problem will be an acute one in 3 or 4 months, and long before that we hope to be ready for it. I don't know. We may have to just completely revise the bus schedule. You may have to have a doubling up of carrying. You may have to go into some kind of a jitney scheme that the powder plants used in the last war. You may have to have a combination of all of them.

Mr. FITZGERALD. I observed in my State, the cars that are going to the defense areas now are taking 1 to 5 passengers, but when you are talking about establishing bus service, that means an increase probably of 300 or 400 percent in the price of transportation for these defense workers, and not only that, it will consume more time on the road. Some of these defense workers today are working 8 hours 7 days a week in the defense industries and are also spending 3 and 4 hours traveling back and forth from and to work. Now, if you establish bus service, it means that possibly another hour will

be added to their day, and a great deal of consideration should be given to this because, in my opinion, the defense program will break down entirely if these defense workers are not able to go to their work and come back just as soon as possible because, as I said before, I know that workers in my State are traveling 100 to 120 miles to the defense areas, and we cannot build houses and homes fast enough to take care of them, and we are up against the shortage in building materials, as you know, as we have in rubber and other material, and I think for those men, certainly a great deal of thought will have to be given to keep this method of transportation in 100-percent operation.

Mr. HENDERSON. In every meeting of the S. P. A. B., that has been discussed. The War Department has put that on us. So has Mr. Hillman. Every day we have been on that and we have worked on that. That is all I can say.

The CHAIRMAN. Mr. Ploeser, of Missouri.

Mr. PLOESER. Mr. Henderson, in the beginning of your preliminary statement, you said that you didn't foresee (I believe I understood you to say) that you didn't foresee the shut-off of raw material supplies in the Far East. You said then also that you weren't critical of either the military or economic strategy used. I wonder what your opinion might be on the diplomatic strategy used.

Mr. HENDERSON. Mr. Congressman, don't you think that I have enough fights in a day already? I haven't had a good fight with the State Department for 2 weeks.

Mr. BULWINKLE. Mr. Chairman, I raise the point of order. Mr. Henderson is not a diplomat by any means, and he is not in the Department of State.

The CHAIRMAN. The gentleman will proceed in order.

Mr. PLOESER. In defense of Mr. Henderson, I want to say that in my opinion he is quite a diplomat.

Tell me this: When did you survey in your department, or in S. P. A. B., the rubber situation? When did you first survey it?

Mr. HENDERSON. I think the first report on rubber was within the first month of S. P. A. B.'s existence, and we viewed every one of the essential raw materials at that time, and we have reviewed it every day since.

Mr. PLOESER. This question I think is a constant question in the minds of all of us. Why have we allowed ourselves to get into a rubber situation without a greater production capacity of synthetic rubber? May I ask, then, to follow that, if you feel that there is any chance of our productive capacity of synthetic rubber meeting the ultimate deadline of our present raw rubber stock pile?

Mr. HENDERSON. That is a question for the Army and Navy Munitions Board. No doubt the oil industry and the rubber industry, they have got priorities and could make a capacity for, say, maybe 400,000 or 600,000 tons per annum. But that means a choice again on a scarce material. In fractionating equipment, it is necessary to have butane gas in order to make butalanine. That is high-pressure stuff—nickel steel. It is the same thing you need for 100-octane gas, toluol, and all things like that, so they have got a very definite choice as to whether or not they would use that material for synthetic rubber. That is not one of my choices. I wish we had it.

Mr. PLOESER. As I understand it, the freeze order was effective January 1, it was released and published to the attention of the public on January 2. A great many of the dealers did not get a formal notice until January 3 and in the interim of those 3 days naturally committed themselves to a number of sales which they haven't yet been able to deliver.

What plans have been given to them concerning the release of those sales? You say that they are going to be released. How quickly are they going to be able to deliver their commitments?

Mr. HENDERSON. There will be no release on those cars that are sold after January 1. The ones that were sold before that, as I say, where you can get an objective determination of it, they will be released on February 2.

Mr. PLOESER. You mentioned a while ago the fact that the scrap dealers like to trade and bargain.

If you are willing to freeze suddenly without any prearranged conferences with other industries such as the dealer in the automobile industry, and yet sit around and be willing to let the scrap dealers bargain and haggle over the scrap we need in the production of steel, why is it that S. P. A. B. cannot come in and freeze their situation and do something about that?

Mr. HENDERSON. You cannot compel a man to work or do certain things. I think, although there is some haggling or higgling in the market, and things like that among the junk dealers, it does not interfere. When you do find it, it ought to be cracked down on. You are relying on their business enterprise to get material, and you ought to do that. We are trying not to disturb customary practices and things like that.

Mr. PLOESER. But disturb on one hand and permit abuse on the other.

Mr. HENDERSON. It is quite a different thing in my mind. When we catch one of these fellows offside on a matter of price, whether it is a steel company or anybody else, we make them pay the difference into the Treasury. I think that you ought to crack the ones that get offside, that take their chances, and things like that.

You have got to avoid, as much as possible, regimentation in this thing. We are going to try to win this war for what? For the maintenance of our democratic principles, and I do not like to contemplate just freezing and things like that. Nobody does it in any sense of joy. The fact of the matter is, it is one of the nastiest jobs that you could think of. We will get more scrap in my opinion by relying on their business acumen and things like that. I do not think that the scrap dealers generally are lying down. It is a magnificent record that the scrap dealer has delivered to the steel companies.

Mr. PLOESER. It has come to this committee's attention in executive session, therefore I cannot quote the source, but it has come to the committee's attention that the reason why more steel is not being produced in various classifications is because of the inability to get this scrap, and it has also come to the attention of this committee that there is considerable disposition on the part of a great many scrap dealers—and I do not mean to indict the entire industry—to hoard.

You said before that steel was an element also in this automobile program as well as rubber, and also, of course, the defense production needs and the request of the President.

Mr. HENDERSON. I do not recall but one incident on which we had any delay, even of a day or two, in military production on the matter of scrap. I say, if you want to talk scrap, you should talk to Bill Batt and Rosenwald, who have that thing under way, but I do not know of any group with which we have had more fights than we have had with these scrap fellows, and yet you have got a sort of an affection for them just the same, because, well, they are scrappy and they get out and hustle this stuff in. I do say that I think you ought to crack down on them when they get offside. If they are hoarding, the Government ought to take them out of the picture. Any honest scrap dealer detests those fellows just as much as you and I do.

Mr. PLOESER. Do you intend to ration used tires, or is that a fair question at this moment?

Mr. HENDERSON. Put it this way: I do not determine what is to be rationed. I perform an administrative function. After S. P. A. B. makes a determination, you total it up and see if there isn't enough to go around.

Mr. PLOESER. I did not necessarily mean you individually. I mean your organization, or S. P. A. B.

Mr. HENDERSON. Well, there is no plan in my organization for it, but again, just as I said to Leonard Hall, when you asked that question, you put me to the place where I will give a disturbance to the community regardless of what the answer is. That is how this thing came about in the matter that the Government was going to take private cars. I was asked, "Well, suppose you do not have any more, what will be Government do?" And I said, "Well, that is one of the things making 200,000 cars will help us to take care of." The Government would not have to intrude on the individual. I said that if it has to, of course, it will do as it has done with the ships and it has had to do with other things—it would just have to take them. Well, what I had said was by way of explaining why we were not going to do it, but the thing that got the play, of course, was that.

Mr. FITZGERALD. Will this statement change the last statement that that you made, that is, that there is no idea of your department taking these private cars?

Mr. HENDERSON. No; it will not.

The CHAIRMAN. All the members of this committee have finished. I wonder if they have any other questions that they would like to ask. It is now about 12, and I think that we should finish up if we can. May I ask those that have any questions to ask, to bring them up here to the table? We will present them to Mr. Henderson in the hope that he can get them answered this afternoon in order that they may be inserted in the unrevised print tonight. If that request is reasonable, we hope to carry it out. If it is not reasonable, we will get them in on a subsequent date.

Mr. BULWINKLE. Do you, or any of these numerous organizations of which you are a member, contemplate putting in a ceiling on the price of used cars?

Mr. HENDERSON. If it becomes necessary, we will. We will put a price ceiling on used cars, and schedules for that are in the ice box. They are in the ice box now if we have to use them; yes.

Mr. BULWINKLE. Private individuals, dealers, or both?

Mr. HENDERSON. Sure.

Mr. BULWINKLE. Now, then, when you were speaking about this 1 percent a month which is allowed for the handling of these cars, does that take into consideration the rent and the employees and all of the expenses of that organization?

Mr. HENDERSON. Yes.

Mr. BULWINKLE. What have you thought about the situation where an automobile dealer has a lease on a high-priced piece of property and how do you think he is going to keep on in business with that?

Mr. HENDERSON. As I said, Major, no dealer will be compelled by the Government to store one of these cars. The dealer will have to decide whether or not that is a profitable undertaking for him. If you want to ask me if there is anything in my bailiwick which will enable me to take care of leases and things like that; no. That is a thing, as I say, very few people are addressing themselves to.

Mr. BULWINKLE. It came out in the evidence yesterday that a man down in my district is paying \$1,000 a month rent on a long-term lease. Do you not think that something ought to be done to relieve a situation like that?

Mr. HENDERSON. When I started my testimony, I asked, Major, that it be confined to questions having to do with my responsibility. I could testify on the matter of small businesses pretty eloquently. I believe the chairman could tell you that over a period of years I have never felt that the Government has taken hold adequately of the problems of the small businessman. I have attempted to show over a period of years what the concentration was, that the opportunity for people with small capital has been gradually disappearing. My thoughts tend to the direction that this committee is trying to go, but I do not want to get into that.

The CHAIRMAN. We will be through in just a moment, Mr. Henderson.

Mr. HALLECK. It has been suggested to me that there is a great possibility of private agencies being used to repair truck and tank motors and airplane motors, and so forth. Has any consideration been given to shunting some of that work to these dealers in their repair shops, the Government availing itself of their capacity to do that work?

Mr. HENDERSON. No; we haven't. If it does not fall into Floyd Odlum's division, we will try to look into it. It is a tough one to carry, but Floyd Odlum has done some extraordinary things considering the limits.

Mr. HALLECK. I appreciate that. I am familiar with that.

The CHAIRMAN. Counsel wanted to ask one question.

Mr. KIRKLAND. I have a number of questions, but I will postpone those under the chairman's plan. I would like for you to furnish the committee, for the unrevised print of today's record, the official Government order on the car freezing. Would you be able to do that?

Mr. HENDERSON. Yes.

(The data referred to is as follows:)

SMALL BUSINESS IN THE UNITED STATES

TITLE 32—NATIONAL DEFENSE

CHAPTER IX—OFFICE OF PRODUCTION MANAGEMENT

SUBCHAPTER B—PRIORITIES DIVISION

PART 981—PASSENGER AUTOMOBILES

Amendment No. 1 to Supplementary General Limitation Order L-2-f Restricting Sale and Delivery of Passenger Automobiles

981.7 (Supplementary General Limitation Order L-2-f) is hereby amended by adding to paragraph (a) thereof the following subparagraph:

"(1) *Sales to the Army, Navy, designated governments, and designated governmental agencies.*—Nothing in this order shall prevent any person from making a sale, lease, trade, loan, delivery, shipment, or transfer of passenger automobiles to or for the account of the following:

"(i) The Army or Navy of the United States, the United States Maritime Commission, the Panama Canal, the Coast and Geodetic Survey, the Coast Guard, the Civil Aeronautics Authority, the National Advisory Commission for Aeronautics, the Office of Scientific Research and Development;

"(ii) Any person who has been assigned an A-1-j or higher preference rating by a certificate or order signed by the Director of Priorities and issued to and naming the specific person seeking to purchase the vehicle;

"(iii) Any person (i) who is a prime contractor with the United States Army or United States Navy for the construction of a defense project described in a Preference Rating Order P-19, P-19-a, or P-19-b, issued to and naming as the builder of such defense project an official or agency of the United States Army or United States Navy; and (ii) to whom such official or agency has extended an A-1-j or higher preference rating assigned by such order; *Provided*, That such prime contractor shall also obtain a signed statement from any Army or Navy officer in charge of the construction of the defense project to the effect that the acquisition of the vehicle is necessary for such construction, and shall deliver such statement to the seller thereof."

(P. D. Reg. 1 Amended, Dec. 28, 1941, 6 F. R. 6880; O. P. M. Reg. 8 Amended, Sept. 2, 1941, 6 F. R. 4865; F. O. 8020, Jan. 7, 1942, 6 F. R. 191; P. O. 8875, Aug. 28, 1941, 6 F. R. 4483; sec. 2 (a), Public, No. 671, 76th Congress, Third Session, as amended by Public, No. 80, 77th Congress, First Session.)

Issued this 8th day of January, 1942.

DONALD M. NELSON,
Director of Priorities.

TITLE 32—NATIONAL DEFENSE

CHAPTER IX—OFFICE OF PRODUCTION MANAGEMENT

SUBCHAPTER B—PRIORITIES DIVISION

PART 976—MOTORTRUCKS, TRUCK TRAILERS, AND PASSENGER CARRIERS

Amendment No. 1 to Supplementary General Limitation Order L-8-o further restricting sales and delivery of light motortrucks.

976.9 (Supplementary General Limitation Order L-8-o) is hereby amended by adding to paragraph (a) thereof the following subparagraph:

"(1) *Sales to the Army, Navy, designated governments, and designated governmental agencies.*—Nothing in this order shall prevent any person from making a sale, lease, trade, loan, delivery, shipment, or transfer of light motor trucks to or for the account of the following:

"(i) The Army or Navy of the United States, the United States Maritime Commission, the Panama Canal, the Coast and Geodetic Survey, the Coast Guard, the Civil Aeronautics Authority, the National Advisory Commission for Aeronautics, the Office of Scientific Research and Development;

"(ii) Any person who has been assigned an A-1-j or higher preference rating by a certificate or order signed by the Director of Priorities and issued to and naming the specific person seeking to purchase the vehicle;

"(iii) Any person (i) who is a prime contractor with the United States Army or United States Navy for the construction of a defense project described in a Preference Rating Order P-10, P-10-a, or P-10-b, issued to and naming as the builder of such defense project an official or agency of the United States Army or United States Navy; and (ii) to whom such official or agency has extended an A-1-j or higher preference rating assigned by such order; *Provided*, That such prime contractor shall also obtain a signed statement from the Army or Navy officer in charge of the construction of the defense project to the effect that the acquisition of the vehicle is necessary for such construction, and shall deliver such statement to the seller thereof."

P. D. Reg. 1 Amended, Dec. 23, 1941, 6 F. R. 6680; O. P. M. Reg. 3 Amended, Sept. 2, 1941, 6 F. R. 4865; E. O. 8020, Jan. 7, 1942, 6 F. R. 191; E. O. 8875, Aug. 23, 1941, 6 F. R. 4483; sec. 2(a), Public No. 671, 76th Congress, Third Session, as amended by Public No. 89, 77th Congress, First Session.)

Issued this 8th day of January 1942.

DONALD M. NELSON,
Director of Priorities.

TITLE 32—NATIONAL DEFENSE

CHAPTER IX—OFFICE OF PRODUCTION MANAGEMENT

SUBCHAPTER B—PRIORITIES DIVISION

PART 970—MOTOR TRUCKS, TRUCK TRAILERS, AND PASSENGER CARRIERS

Amendment No. 1 to Supplementary General Limitation Order L-1-c restricting sale and delivery of medium and heavy motor trucks and truck trailers

970.10 (Supplementary General Limitation Order L-1-c) is hereby amended by adding to paragraph (a) thereof the following subparagraph:

"(1) *Sales to the Army, Navy, designated governments, and designated governmental agencies.* Nothing in this Order shall prevent any person from making a sale, lease, trade, loan, delivery, shipment, or transfer of medium and heavy motor trucks and truck trailers to or for the account of the following:

(i) The Army or Navy of the United States, the United States Maritime Commission, the Panama Canal, the Coast and Geodetic Survey, the Coast Guard, the Civil Aeronautics Authority, the National Advisory Commission for Aeronautics, the Office of Scientific Research and Development;

(ii) Any person who has been assigned an A-1-j or higher preference rating by a certificate or order signed by the Director of Priorities and issued to and naming the specific person seeking to purchase the vehicle;

(iii) Any person (i) who is a prime contractor with the United States Army or United States Navy for the construction of a defense project described in a Preference Rating Order P-10, P-10-a, or P-10-b, issued to and naming as the builder of such defense project an official or agency of the United States Army or United States Navy; and (ii) to whom such official or agency has extended an A-1-j or higher preference rating assigned by such order; *Provided*, That such prime contractor shall also obtain a signed statement from the Army or Navy officer in charge of the construction of the defense project to the effect that the acquisition of the vehicle is necessary for such construction, and shall deliver such statement to the seller thereof."

(P. D. Reg. 1, Amended, Dec. 23, 1941, 6 F. R. 6680; O. P. M. Reg. 3 Amended, Sept. 2, 1941, 6 F. R. 4865; E. O. 8020, Jan. 7, 1942, 6 F. R. 191; E. O. 8875, Aug. 23, 1941, 6 F. R. 4483; sec. 2 (a), Public No. 671, 76th Congress, Third Session, as amended by Public No. 89, 77th Congress, First Session.)

Issued this 8th day of January 1942.

DONALD M. NELSON,
Director of Priorities.

[Advance release for Friday morning papers, January 2, 1942]

OFFICE OF PRODUCTION MANAGEMENT

DIVISION OF PRIORITIES

A temporary ban on the retail sale, delivery, purchase, or lease of new passenger cars, new light trucks, and new heavy trucks pending development of a rationing plan was imposed yesterday through limitation orders issued by Donald Nelson, Director, Priorities Division, Office of Production Management.

At the same time it was announced that the Supply Priorities and Allocations Board had approved a program for the stopping of production of new passenger cars and light trucks within a few weeks. This program was submitted by the Division of Civilian Supply and the Automotive, Transportation, and Farm Equipment Branch of the Office of Production Management. The program will be discussed with representatives of the automotive industry at a meeting to be held here on January 5.

The rationing of new cars, light trucks, and heavy trucks is necessitated by the impending restrictions on production. The rationing plan on cars and trucks, as in the case of new tires and tubes, will be developed and administered by the Office of Price Administration under direction of Leon Henderson, Administrator. The ban on sales extends to January 15, at which time it is expected that a rationing plan will have been developed.

It is estimated that at the present time there are more than 450,000 passenger cars in dealers' stocks. There are no data available as to the number of light or heavy trucks held by dealers.

It is expected that under the rationing plan purchase of new passenger cars and light trucks will be limited to Government, lend-lease, and most essential civilian users.

Mr. Nelson said that an amendment to the orders will be issued immediately permitting the completion of conditional sales, chattel mortgage, and similar automobile purchase contracts when delivery was made prior to January 1. Amendments will be issued also to permit repossession of cars under such contracts in accordance with the usual laws governing such repossessions. It is also probable that additional amendments will be issued to cover particular hardship situations which may develop.

TITLE 32—NATIONAL DEFENSE

CHAPTER IX—OFFICE OF PRODUCTION MANAGEMENT

SUBCHAPTER B—PRIORITIES DIVISION

PART 975—MOTOR TRUCKS, TRUCK TRAILERS, AND PASSENGER CARRIERS

Supplementary General Limitation Order I-3-a
Further Restricting Sale and Delivery of Light Motor Trucks

In accordance with the provisions of section 976.3 (General Limitation Order L-3, issued September 13, 1941), which the following order supplements.

It is hereby ordered that:

976.9 (Supplementary General Limitation Order I-3-c):

(a) *Prohibition of sales of light motor trucks.*—Until January 15, 1942, no producer, dealer, or other authorized channel of distribution of light motor trucks, as defined in section 976.3 (1) of General Limitation Order L-3, issued September 13, 1941, shall sell, lease, trade, lend, deliver, ship, or transfer any light truck, except to other producers, dealers, or other authorized channels of distribution for resale; and no person (with the exception of other producers, dealers, or other authorized channels of distribution for resale) shall accept any such sale, lease, trade, loan, delivery, shipment, or transfer of any light truck. For the purposes of this order "light truck" means a 1942 model light truck or any light truck which has been used less than 1,000 miles.

(b) All communications concerning this order shall be addressed to: Office of Production Management, Washington, D. C., ref. I-3-c.

(c) *Effective date.*—This order shall take effect immediately.

(P. D. Reg. 1, Aug. 27, 1941, 6 F. R. 4489; O. P. M. Reg. 3, March 6, 1941, 6 F. R. 1596; E. O. 8629, Jan. 7, 1941, 6 F. R. 191; E. O. 8875, Aug. 28, 1941, 6 F. R. 4483; sec. 2 (a), Public No. 671, 76th Cong., 3d sess., as amended by Public, No. 89, 77th Cong., 1st. sess.; sec. 9, Public No. 783, 76th Cong., 3d sess.)
 Issued this 1st day of January 1942.

DONALD M. NELSON,
Director of Priorities.

TITLE 32—NATIONAL DEFENSE

CHAPTER IX—OFFICE OF PRODUCTION MANAGEMENT

SUBCHAPTER B—PRIORITIES DIVISION

PART 976—MOTOR TRUCKS, TRUCK TRAILERS, AND PASSENGER CARRIERS

Supplementary General Limitation Order L-1-c Restricting Sale and Delivery of Medium and Heavy Motor Trucks and Truck Trailers

In accordance with the provisions of section 976.1 (General Limitation Order L-1-a), which the following order supplements:

It is hereby ordered that:

976.10 (Supplementary General Limitation Order L-1-c).

(a) *Prohibition of sales of medium and heavy motor trucks and truck trailers.*—Until January 15, 1942, no producer, dealer, or other authorized channel of distribution of medium and heavy motor trucks and truck trailers, shall sell, lease, trade, lend, deliver, ship, or transfer any medium and heavy motor trucks and truck trailers, except to other producers, dealers, or other authorized channels of distribution for resale; and no person (with the exception of other producers, dealers, or other authorized channels of distribution for resale) shall accept any such sale, lease, trade, loan, delivery, shipment, or transfer of any medium and heavy motor trucks and truck trailers. For the purposes of this order "Medium and heavy motor trucks and truck trailers" mean 1942 models or any such vehicles which have been used less than 1,000 miles.

(b) All communications concerning this order shall be addressed to: Office of Production Management, Washington, D. C., reference L-1-c.

(c) *Effective date.*—This order shall take effect immediately.

(P. D. Reg. 1, Aug. 27, 1941, 6 F. R. 4489; O. P. M. Reg. 3, March 8, 1941, 6 F. R. 1596, as amended Sept. 12, 1941, 6 F. R. 4805; E. O. 8629, Jan. 7, 1941, 6 F. R. 191; E. O. 8875, Aug. 28, 1941, 6 F. R. 4483; sec. 2 (a) as amended by Public, No. 89, 77th Cong., 1st sess., sec. 9. Public, No. 783, 76th Cong., 3d sess.)
 Issued this 1st day of January 1942.

DONALD M. NELSON,
Director of Priorities.

TITLE 32—NATIONAL DEFENSE

CHAPTER IX—OFFICE OF PRODUCTION MANAGEMENT

SUBCHAPTER B—PRIORITIES DIVISION

PART 981—PASSENGER AUTOMOBILES

Supplementary General Limitation Order L-2-f Restricting Sale and Delivery of Passenger Automobiles

In accordance with the provisions of section 981.1 (General Limitation Order L-2, issued September 13, 1941), which the following order supplements:

It is hereby ordered that:

(a) *Prohibition of sales of passenger automobiles.*—Until January 15, 1942, no person now in possession of any passenger automobile (with the exception of a producer of such passenger automobiles) shall sell, lease, trade, lend, deliver, ship, or transfer any passenger automobile; and no person (with the exception of a regularly established dealer in such passenger automobiles) shall accept any such sale, lease, trade, loan, delivery, shipment, or transfer of any passenger

automobile. For the purposes of this order "passenger automobile" means a 1942 model passenger automobile or any automobile which has been used less than 1,000 miles.

(b) All communications concerning this order shall be addressed to: Office of Production Management, Washington, D. C.; reference L-2-f.

(c) *Effective date.*—This order shall take effect immediately.
(P. D. Reg. 1, Aug. 27, 1941, 6 F. R. 4489; O. P. M. Reg. 3, March 8, 1941, 6 F. R. 1500; E. O. 8620, Jan. 7, 1941, 6 F. R. 181; E. O. 8875, Aug. 28, 1941, 6 F. R. 4483; sec. 2 (a), Public, No. 671, 76th Cong., 3d sess., as amended by Public, No. 89, 77th Cong., 1st sess.; sec. 9, Public, No. 783, 70th Cong., 3d sess.)

Issued this 1st day of January 1942.

DONALD M. NELSON,
Director of Priorities.

Certified to be a true copy of the original.

*Assistant Deputy Director of Priorities,
Office of Production Management.*

The CHAIRMAN. Mr. Henderson, we realize how busy you are. I received a note here just now that the Conference of Mayors had expected you to address them this morning, and they are impatiently waiting.

Mr. HENDERSON. As I told you, there does not seem to be any law about double jeopardy applying to the Price Administrator.

The CHAIRMAN. As applied to you, you have no closed season; it is always open season on Leon Henderson. Anyone desiring to file a statement in the record may do so by delivering it to Mrs. Filion. Bring them up to the table right away after the committee concludes its session.

Any governmental agency desiring a copy of this testimony may receive it on request.

(Questions submitted and Mr. Henderson's answers follow:)

SUBMITTED BY VINCENT C. MALONE, MOTOR SALES CO. OF BALTIMORE

Question. In view of the plan which freezes all cars in dealers' stocks, why should dealers accept any cars from the factories in January?

Answer. The price ceiling which the Office of Price Administration is announcing today for new cars contemplates an increase of 1 percent a month of the list price for storage, financing, insurance, and taxes. We have been advised that most dealers will want delivery of cars to be produced during the remainder of January under these conditions but those who do not wish to take them are not required to do so.

Question. If cars are to be rationed as tires, will not many dealers have passenger cars on hand for several years?

Answer. We presently contemplate the distribution of dealers' new-car stocks other than those pooled under the Office of Production Management's instructions to factories within the period of a year.

Question. What disposition can be made of large stocks of accessories especially built for 1942 models, specifically radios?

Answer. The dealer is under no restraint in the sale of these accessories and in view of the military demand for radios, there will probably be no difficulty in their finding a market.

SUBMITTED BY L. O. KRISHER, PHILADELPHIA

Question. How is the dealer to get a price to cover his carrying charges in a market where demand is limited by the Rationing Board and some dealers decide to unload at liquidating prices?

Answer. Some dealers will no doubt want to liquidate their new-car inventory by selling to other dealers. On balance, however, there would appear to be no reason why dealers in general should sell an increasingly scarce commodity at prices which would not recover their costs plus a reasonable margin of profit.

SUBMITTED BY BURT BASTON

Question. If a dealer is forced out of business, what disposition is to be made of his new cars, demonstrators, and tires?

Answer. I anticipate that some dealers would want to liquidate their sales business promptly by selling their inventories to other dealers in order to specialize in servicing cars. Such a consolidation of the automobile business is desirable under the circumstances and it will help the dealers who choose to stay in the sales business.

Question. How long will dealers have to carry cars under this rationing program and what provision is to be made for carrying cars above formula A?

Answer. Except for the reserve pool of automobiles composed of the remainder of January production, which will probably be held for a period of a year or longer, we presently anticipate the liquidation of dealers' new-car stocks over the period of a year.

UNIDENTIFIED

Question. Can farmers who use their passenger cars or trailers attached to such passenger cars to carry produce to the market obtain a priority on tires?

Answer. They can, provided that they are moving their produce to a wholesale market or to shipping points, but they cannot if the delivery represents retail distribution to the ultimate consumer.

SUBMITTED BY A CHRYSLER DEALER

Question. There are some areas in which dealers of certain makes of cars have not been able to build up new stocks of cars. Can something be done to equalize their present condition as to cars that may be sold this year?

Answer. We would hope to facilitate purchases by such dealers of new-car stocks from other dealers who would not wish to remain in business.

UNIDENTIFIED

Question. The cars on the road from now on will be older on the average than before. They will require more replacement parts. As the Administrator of the Office of Civilian Supply, have you brought this situation to the attention of the priorities people in the Office of Production Management with a view to making replacement parts available to service establishments?

Answer. As I said in my earlier testimony, I believe replacement parts for automobiles to be one of the prime civilian needs and the responsible authorities in the Office of Production Management have been sympathetic to this point of view.

Question. I noticed a statement attributed to you in the press a few days ago, according to which you referred to the desirability of making tires from reclaimed rubber. I also noticed that the Secretary of Commerce, Jesse Jones, in a statement on Monday said it would be possible to collect a million tons of scrap rubber from which 600,000 tons of reclaimed rubber could be made. Is it your opinion that a substantial portion of this rubber can be used to provide tires for a large segment of the public that are outside the eligible list for tires?

Answer. As I said in my earlier testimony, reclaimed rubber cannot be satisfactorily used for most purposes without the addition of raw rubber. If and when rubber is produced to meet military needs and permit an increase in the allocation for civilian consumption, we will be able to expand the tire eligibility list proportionately. Rapid expansion of rubber production requires machine tools for which there are many exceedingly important claimants. I have urged as rapid an expansion of synthetic rubber production as can be accomplished without handicapping our prime military needs.

Question. You have been a consistent upholder of the theory that one of the ways to prevent inflation was to get people to spend money on things that do not interfere with production of war materials. Certainly motorists spend a large amount of money on travel—I am told over \$5,000,000 a year * * *. Do you think it desirable that from this standpoint and from the standpoint of recreation people should be encouraged to travel?

Answer. The limiting factors on expenditures for automobiles are the present scarcity of tires and the prospective scarcity of automobiles. These scarcities are

products of the war: The tire shortage arises out of the situation in the Far East, the prospective automobile shortage out of the enormous requirements for armaments production. The reduction of expenditures for automobiles, which is caused by circumstances beyond my control, will indeed serve to increase our problems in preventing unwarranted price rises.

(The following statements were filed:)

**STATEMENT OF HON. HERMAN P. EBERHARTER, REPRESENTATIVE
FROM PENNSYLVANIA, THIRTY-SECOND DISTRICT**

Mr. Chairman, I have very little patience with any individual who believes that in this time of emergency he should continue to live normally, as he did in peacetime, or that business can go on as usual.

However, I do believe that automobile dealers and their employees have suffered a real blow by the order freezing automobile stocks; and I also believe it feasible to adopt a rationing plan which would permit dealers to add to the present sales price of automobiles the extra costs necessitated by storage, financing, et cetera, this extra cost to be borne by the eventual purchaser who obtains a priority order. Such a plan would entail no undue burden, would lessen the hardship of the automobile dealers and their employees, and, above all, would not be detrimental to the national-defense effort.

STATEMENT OF BERT BASTON, MINNEAPOLIS, MINN.

Mr. BASTON. Mr. Chairman and members of the committee. My name is Bert Baston, automobile dealer in Minneapolis, Minn. I represent the Minnesota Motor Trades Association, and am president of the Minneapolis Dealers Association.

At the present time we have one job—to win a tough war, whatever the cost. In that the automobile dealers agree.

However, the blow that struck the automobile business came so fast that it resulted in complete paralysis of 44,000 dealers. Overnight 44,000 dealers who have believed in America for a long time were washed up on the shore and left derelict. No chance to change their methods of operation. No chance to contract their business to new conditions. No chance to adjust leaseholds or physical set-ups. No chance to make an orderly disposition and adjustment for thousands and thousands of employees who have no qualifications or were too old to enter our all-out defense program. No chance to voice our thinking in a business where our thinking might be sound. No chance to maintain a struggle for existence and for the maintenance of a transportation system that may and I think will be vital if we are to have guns, tanks, and planes.

All of us are not going to survive but I think that immediate steps should be taken to maintain an organization that at least can repair and maintain a transportation system in America that is vital and necessary if our defense program is to continue.

Therefore we ask your immediate consideration of the program submitted by the National Automobile Dealers Association for our imme-

diate relief and that any further freezing, curtailment, or restrictions of this business be based on a survey of defense needs and that we be told those needs.

If you will do that, dealers of the State of Minnesota will not shirk any responsibility or any demand that this country may make.

Thank you.

The CHAIRMAN. The committee will recess until 2:30 this afternoon when Mr. Odlum will be heard by the committee.

(Whereupon, at 12 noon, the hearing recessed until 2:30 p. m. of the same day.)

AFTERNOON SESSION

(The hearing was resumed at 2:30 p. m., pursuant to the recess.)

The CHAIRMAN. While we are waiting for one or two members of the committee, the Chair desires to state that the testimony of Mr. Leon Henderson which he gave this morning will be available in printed form tomorrow morning. It will be printed tonight at the Government Printing Office, unrevised.

We will have a limited number of copies, about 500 to 1,000. We will be able to furnish a copy to each Member of the House who requests it, a few copies to each member of this committee, and a copy to the different associations that entered their appearances here on yesterday. They will be available in room 114 of the Old House Office Building, the southwest corner of this building. The telephone is 1434.

Mr. Odlum will testify commencing in a few minutes and his testimony will be available tomorrow also in printed form.

I am authorized to announce that Mr. Odlum will be pleased to answer any question that is submitted in writing. We are not asking you to bring it up to the table, but just write it up and this afternoon when we close the session, if you will give it to this lady [indicating] or counsel, Mr. Kirkland, it will be referred to Mr. Odlum and there will be an answer prepared and the question and answer will appear in the printed record of these proceedings. If all of them are not in tonight they will be in a subsequent edition, so I think that will give every person who desires to ask a question an opportunity to do so and to get his question answered.

After Mr. Odlum's testimony this afternoon Mr. Cargile, president of the National Automobile Dealers Association, will be permitted to make a statement, in order to clarify some points of the testimony this morning. Tomorrow the tire dealers will be heard and Friday members of the National Automobile Dealers Association and the executive officers will return to the witness stand to be questioned by members of this committee.

There is a call from the House, but I am not going to answer the call myself because I know there will be a quorum there and if it is all right with the members of the committee we will start and go ahead. It is a vote on the Cherokee bill.

Mr. Odlum.

**TESTIMONY OF FLOYD B. ODLUM, DIRECTOR OF THE DIVISION OF
CONTRACT DISTRIBUTION OF THE OFFICE OF PRODUCTION
MANAGEMENT**

The CHAIRMAN. Mr. Odlum, I wish you would give your name and position and your address to the reporter, and after that, as Chairman of the committee, I would like to request that you tell the committee what your plans are for aiding small business.

Mr. ODLUM. My name is Floyd B. Odlum. My address is 1 Exchange Place, Jersey City, N. J., and I am at present serving as Director of the Division of Contract Distribution of O. P. M.

Many plants of intermediate and small size were facing a close-down due to inability to carry on as usual in civilian life.

Now, my job was to spread work and by that means to help alleviate unemployment, to help factories that were going to close down, and to help our defense production.

It seemed to me we had to approach this in some orderly over-all way, and from the standpoint of getting quick results in the defense effort it was perfectly apparent that the intermediate, the larger factories, were not only easier to find and easier to convert over to defense production, but, would contribute in a given space of time more relief in that defense production.

We had the small plants scattered throughout the United States and we didn't even know their names or their locations. We only knew what we were able to get from general sources such as the United States Census reports, about how many there were and how many employees there were, and what they turned out by way of production by classification in the general industries in the year 1939 and some preceding years.

So far as plans for small business are concerned, as a part of our general work, we have been devoting some of our time to this problem since I took office in the middle of September 1941.

The term "small business" is perhaps a little broad to cover the work that we have been doing, because under the Executive order which defines the responsibilities of my Division, my duties have been with respect to manufacturing and, therefore, I have been looking at small business only with respect to that sector that deals with manufacture, so that we might fit it in some way to our program for defense and war efforts or otherwise.

An orderly approach to the whole subject of mobilization of industry convinced me early in October that the problem of dealing with small manufacturers as a class had to be separately attacked. I find that a large part of our total manufacturers of the United States, in fact, over half of them, employed 5 or less workers, that about 72 percent of them employed 20 or less workers, and about 92 percent of them employed 100 or less workers.

I also found that there was a grave problem confronting the country, not only from the standpoint of defense production work but also from the economic standpoint, caused by the priorities that were then being imposed with respect to certain materials due to shortages.

It seemed to us that the very small companies that would be affected first by priorities and shortages of materials because they don't have the organization to stock up, and don't have the organization to buy,

and the regular sources for their raw materials that some larger companies have.

In case of priorities covering more materials than were available for all, some of the very small plants were likely not to get their materials even though they had a priority. If we, as the Division of Contract Distribution, would try to go out and cover the whole country at one time, we would simply fail in our job because we couldn't reach any of them in time.

I conceived the idea that the smaller plants should receive an allowance of a small portion of materials necessary to enable them to carry on on at least a maintenance basis to the extent that they couldn't get the materials from other usual sources, including priorities that they might have, until we could take the first 6 months to do a job of conversion of our defense production in the larger units. I proposed such a plan early in October, I think at a hearing before the Truman committee.

It was being developed in my mind at the time of the testimony. And soon thereafter I reduced it to a specific form and formula and eventually it was submitted to S. P. A. B., which, after some discussion, referred it back to a committee of the O. P. M. made up of various divisions of the O. P. M., so as to get the consolidated opinion of those various divisions on such a plan.

The plan itself stated in effect that the small business, defined as enterprises employing 20 or less people, should be allotted in the aggregate 2 percent of the raw materials available in 1941 in order to carry on subject to such limitations as on some materials that were all needed for war, some that could not be used for certain end products, such as copper in coffins, and that they could not be allowed to get from this particular allocation if able otherwise to carry on on a maintenance basis, which we defined as 70 percent of normal.

The committee of O. P. M. sent a report back to S. P. A. B. by a majority—I believe it was 3 to 2—against the 20-employee 2-percent allocation to small business.

Sometime in the latter part of December the S. P. A. B., as I understand it, accepted the report of the committee but evidenced their interest in giving some sort of aid to small manufacturers, and set up a procedure for bringing through another plan.

Now, that procedure was for the Division of Contract Distribution to perfect plans for individual industries and submit those plans to the new industry branches that had been set up at just about that time in O. P. M. And then the industry branches, after going over them, either approving or disapproving them, would take the matter up with civilian allocations.

I believe those two divisions would study it together.

And having found that the plan was workable for the particular industry, then the administration of it would either be handled by the industry committees or by the special Hardship Allocations Group, as the thing is called, which is a subdivision or department of the Priorities Division of O. P. M.

Now, of course, the purpose of that was to reach something that seemed to be sound from the standpoint of a definition of small business for the various industries, because small business in one industry does not necessarily go by the same yardstick as small business in another

industry. For example, in the steel business there are probably no small businesses.

We had felt that complete soundness in a plan providing the over-all results, any plan that was correct, was not half as important as speed, and we had used in perfecting this over-all definition of 20 employees or less the only figures that were available to make a plan under which we would know the maximum amount of raw materials that could be taken out of the general over-all materials in the United States in 1941.

In order to effect plans precisely along the lines suggested it, would be necessary to have a great many statistical details from every industry in the United States. The industry committees as set up are not yet organized to get that detail, so we decided in order to save any further delay, to perfect a plan that we felt from the standpoint of our division would be workable and which would give a yardstick to be applied by the industry committees to carry the plan into effect.

That plan we submitted yesterday. It is in effect that there should be set aside as an allocation 1 percent of all of the available raw materials during the year 1942 to assist small manufacturers in maintaining a living basis for their plants as going concerns, that they should use from these allocated amounts only when they have not been able to get enough from their usual sources to maintain that level; that there should be no materials allotted that are all necessary for the prosecution of the war. And then we state that small business for each industry, for the purpose of this plan, shall be as defined by the industry committee representing that industry, either with respect to gross output, the number of employees or otherwise, so that the smaller companies in that industry that together produce about 5 percent of the total production of the industry shall be so classified.

That gets us back again to about the over-all that we were working on.

We also state that there should be determined by these industry committees, each one for his own industry, what the maintenance level is for the company, whether it be 70 percent or 60 percent or 80 percent of 1939 operations or otherwise.

We provide that the proper division of O. P. M., acting through the Director General, shall specify which materials are needed entirely for war and now will be available for civilian use, and also which end materials because of the high amount of metals in them in relationship to the labor involved, as well as in relationship to the usefulness of the article, shall be excepted.

That would be a comparatively short list and not the long list that we have priorities on today, the short list to include door knockers and things like that.

We think that the 1 percent named in that plan does not vary from the 2 percent because this 1 percent is a supplement to other sources to be drawn on only when the other sources do not satisfy.

Our previous plan was that there would be 2 percent, which included all of the usual sources.

We don't think that it will take 1 percent supplementally to maintain small industry for 6 months. We think it will be less, but under this new plan while we have set it up and fixed it at 1 percent as a definite allotment, we have not put the 6 months period in.

In other words, it should carry on until the 1 percent is used up or until another position is taken by the Government authorities.

I have been asked several times since early December whether the entry of the United States into the war has changed my attitude toward what should be done with respect to giving some materials to small business. My answer is "No." I think it is more urgent than ever. I have been carrying through my thoughts on the subject of small manufacturers and reached the following conclusion, first, that we are going to need either in essential civilian production or in war production, every available facility that we have in the United States in order to maintain our civilian economy and carry out the program that has been laid down for tanks and planes and other war materials; that small business, small manufacturers, are going to have the least opportunity to get into the war program, the least benefit if they get into it, and the greatest damage to themselves in the post-war period, because there is so much civilian production to be taken care of which will approximate at least 50 percent of our total production.

That is a field for the small manufacturer to stay in. He has been in it in the past; he is qualified to make a living in it; he must have his place in it after the war; and he can be used there better than elsewhere. I don't mean by that that every small manufacturer should stay in civilian life and not get into war production. I think when circumstances are such that the small manufacturer can find a job he can do in war production or where the armed forces or ourselves find something that fits the small plants, advantage should be taken of it.

We speak of the minority cases rather than the majority, and if it is left for small business to die or get into war production, I fear the greater part of them will die, because the greater part of them wouldn't get into war production in time.

I have also, in thinking about this small business problem in its wider aspects, come to the conclusion that some special agency of the United States Government, entirely apart from O. P. M., should be charged with the responsibility of looking after the interests of small business.

Mr. BULWINKLE. Would you pardon a question right now? How many agencies of the Government are now looking after small business, or supposed to be looking after it?

Mr. ODLUM. I think practically every agency of the Government, to some degree, is theoretically looking after the interests of small business, and I think that is just where the trouble lies. I think everybody's job is nobody's job.

I know the Department of Commerce and the Department of Justice to some degree, I know that our own portion of the O. P. M., and I presume to some degree the S. E. C. and others, are all from time to time having something to say or something to do about small business, but I don't see action. I see a lot of thoughts and expressions of fine intents and nothing comes out of them.

Mr. BULWINKLE. That is what I wanted to bring to the attention of the committee, as well as to others. Now, in the O. P. M. you have got one?

Mr. ODLUM. Yes.

Mr. BULWINKLE. And then in the Agricultural Department you have one for defense relations, and then in the Reconstruction Finance

Corporation and then in the United States Employment Service, and in the Office of Price Administration, and then in the Office of Production Management you have the Army, the Navy, the attorney for the Department of Justice, the Bituminous Coal Division, and quite a number of others, and I will read the rest of the list. The Works Projects Administration, the Interstate Commerce Commission, Treasury Department, Bureau of Internal Revenue, the Supply of Priorities Allocation Board, Home Owners' Loan Corporation, Labor Department, Office of Government Reports, and Federal Reserve Bank, Department of Commerce and the S. E. C. They all have something, more or less, to do with small business, and I brought that to your attention at this particular time to accentuate what you have said.

Mr. ODLUM. I didn't know it was as bad as that. But I think outside of our direct war effort, which, of course, is supreme, that there is no more important subject facing this country than what is going to happen to small business after the war and during the war.

Mr. BULWINKLE. Have you made any recommendation to the President direct about this small business?

Mr. ODLUM. I have made a recommendation only to my chief in the O. P. M. concerning the severance of this from the O. P. M., and I made that only this morning.

Mr. BULWINKLE. You mean severance from the O. P. M.?

Mr. ODLUM. Yes. When you say the Army and Navy are charged with looking after small business, it is impossible for the Army and Navy. Everything they have to do is contradictory. They can't do it and do what they are supposed to do.

Mr. BULWINKLE. They have some kind of an agency set up in the departments to do it, haven't they?

Mr. ODLUM. I don't know, but I am sure they can't do it. I say also the O. P. M. is an agency whose duty parallels, in a large degree, that of the Army and Navy. Their minds are and should be on defense and war production, and, therefore, they can't look at this program through the proper eyeglasses. They can't give the proper attention to it and can't get the proper answers, and it is not because they are not qualified people. It is because they have got another job to do.

Therefore, I see this thing come back and back and back, and I hear everybody talk about it, but there is only one thing that will save little business now, and that is to get little business some work to do and some raw materials to do it with.

They can't get it in the war industry without interfering during the coming months with the best production of war material.

Now, we have over 92 percent of our enterprises which have 100 people or less, and they are scattered proportionately among the States of the United States.

We are building up a lot of new facilities, necessarily so, to carry on this work. How much it will mean nobody quite knows, but what I am sure is that with what we have committed for and what we are bound to have in the period that is coming up, there will be at least \$15,000,000,000 of plant and facilities built, a large part with Government money and a substantial part of the balance that is going to have the opportunity to be amortized over a 5-year period, so if the emergency lasts that long and the facilities are filled with work, the plants may stand with little cost.

The CHAIRMAN. You state that the small plants are divided fairly equally over the States; that is, the 90 percent employing 100 men or less. Now, you said you will spend a minimum of \$15,000,000,000.

What percent of that \$15,000,000,000 will the 90 percent get?

Mr. ODLUM. The 90 percent will get very little of it.

The CHAIRMAN. Now, then, you state that 90 percent have 100 employees or less and are scattered pretty well over the country. What percent of the production do they have?

Mr. ODLUM. I can answer that accurately because I have the figure here. Business enterprises in the United States that employ 100 workers or less employ in the aggregate 2,350,000 workers and do 30 percent of the total production.

The CHAIRMAN. 30 percent?

Mr. ODLUM. Yes.

The CHAIRMAN. Where are the 10 percent located principally?

Mr. ODLUM. Oh, the 10 percent are fairly well concentrated because the 10 percent to a large degree are made up of the General Motors, the Fords, the Chryslers, General Electrics, and Westinghouses, and steel mills and that category.

The CHAIRMAN. I had a complaint the other day. Down in northeast Texas they have what is known as brown ore. It can be used to make steel. Every test has been applied to it. O. P. M. has been advised that they could really make steel cheaper there than any place in the country, and yet the people who have been sponsoring it have been unable to get favorable approval from O. P. M., and Mr. Thurman Arnold's statement which was in his part of the report to the Attorney General was that some of the large concerns have been viewing this program largely from their own interests and preventing the expansion of industries in other sections of the country, although it would be in the interest of our war effort.

Do you observe anything like that in the departments of this Government today? Do you believe that any effort is being made by these large concerns to prevent, we will say a blast furnace, being established down there if it is considered feasible and desirable, when the products are very much needed?

Mr. ODLUM. No; I have not, because principally I have been so centered in my own work, which has been trying to spread work among the existing institutions and to stop, so far as I could, with substitute facilities, any new facilities being built, but I have not been watching what has been going on in those respects.

I think when it comes to a question of enlargement of steel capacity, probably people are thinking in terms of where we can get it enlarged at the least cost of raw materials and fastest time in speed, and sometimes that means, and very properly so, an addition to something already there rather than setting a new project up altogether.

The CHAIRMAN. The expansion of existing facilities?

Mr. ODLUM. Yes; the extension of existing facilities.

The CHAIRMAN. Do you know of anything that you could do if you had the power now, that you are not doing, toward spreading these contracts among small people?

Mr. ODLUM. Well, yes.

The CHAIRMAN. Would you mind indicating that?

Mr. ODLUM. Well, it is a function, in its last analysis, of procurement. Our division is only a service organization. We have no power whatsoever to order anything.

The CHAIRMAN. Of course, you will have to keep in mind that national defense or war preparedness comes first, but if it were within your power, if you had the authority, could you by subordinating civilian needs, give civilian needs more than they are getting today under the present program, without interfering with our war preparedness?

Mr. ODLUM. That is a pretty broad question that I would have to answer in a double way, and then not be sure of myself. In the first place, there can be more production than there is today. I will answer that definitely.

The CHAIRMAN. In what line?

Mr. ODLUM. In almost any line except these specialized lines like munitions, TNT and guns and things like that, because we have additional unused capacity in the United States.

The CHAIRMAN. What about steel?

Mr. ODLUM. I think you need more capacity to build more steel. These are out of my line and I am giving my best judgment without being an expert on the subject.

The CHAIRMAN. Isn't it a fact we will produce less steel this year than we did last year because of the scrap situation?

Mr. ODLUM. I understand there is a shortage that causes fears about that production due to the scrap iron situation and, as I understand it, the shortages are in certain categories of steel, not all kinds of steel, and it therefore gets down to pig iron and then down to the other bottlenecks on the way down.

I have taken occasion, from the standpoint of our own work, to try and find out how much more could be done in the war effort by existing facilities without going below what might be termed a minimum civilian economy, and I am certain that this program that has been called for by the President of the United States in the last 2 weeks, can be met in 1942 and 1943 if facilities that are available are put to work, and we can at the same time maintain our economy, not as much as we would hope for, but enough to get along on very comfortably, and I say that because I believe we have enough capacity in the United States today to produce at least \$120,000,000,000 of goods a year.

The CHAIRMAN. You mean you wouldn't put out of business any of these automobile dealers we have been talking about?

Mr. ODLUM. I am speaking about manufacturing.

The CHAIRMAN. If the manufacturers can continue to produce the cars, they could continue in business. Could you so allocate the steel that the manufacturers could continue to make enough cars to keep them in business?

Mr. ODLUM. I believe that is impossible. I believe there is such a shortage in those particular materials that you can't fulfill the armament program and at the same time produce cars in more than a minimum amount.

The CHAIRMAN. I want to ask you one question. Would your office be disposed to actively assist the automobile dealers in repairing and rebuilding Government-owned cars and trucks thus using the better-equipped shops of hundreds of automobile dealers?

Mr. ODLUM. We have no functions in that respect. So long as they have manufacturing shops connected with these dealers, then I think they are small manufacturing units that come under my classification and they can come in and do something either for civilian life or defense, to add to this over-all production that we must have.

Our war effort is not going to run in the next year more than half our national income or half of our total production. I think if we had \$60,000,000,000 of goods for our civilian life that is not much below what we have had normally in some years of the past decade.

The CHAIRMAN. If you will pardon this interruption, I won't insist on your answer to this question if there is some reason why you feel it should not be answered, but suppose you had the power, you were a czar or a dictator, assuming that for the sake of this discussion, of course, is there in your opinion any way of allocating material different from the way it is now being allocated, to keep in business more of these small businesses?

Mr. ODLUM. Yes, sir; if I had the power to do it.

The CHAIRMAN. What would that power have to be?

Mr. ODLUM. It would be a power of allocation of materials to small businesses coupled with the power of direction of what they should make with those materials.

The CHAIRMAN. And how many more would be kept in business in that way?

Mr. ODLUM. All, with very few exceptions.

The CHAIRMAN. And you would not hinder or impair or stop the war effort in any way?

Mr. ODLUM. I don't think so; but I do not want to be understood as saying I could have anybody make cars or rubber tires to sell.

The CHAIRMAN. You made that plain awhile ago.

Mr. ODLUM. Let me mention the exceptions.

The CHAIRMAN. Yes, sir.

Mr. ODLUM. Let's take rubber.

The CHAIRMAN. Yes, sir.

Mr. ODLUM. It takes a special set-up to make certain things. No matter how much you try to convert them if you had the power to give work to everybody and divide it and had enough work to go around, you would find that it would be very difficult to utilize all the machines and space of a rubber factory, because a lot of that is designed for a particular thing. That goes all the way through industry to some degree, in some cases to a small degree and in some cases a high degree.

The CHAIRMAN. I certainly hope your suggestion receives the consideration of Mr. Nelson.

Mr. ODLUM. I would like to say that I reached a conclusion some time back that in order to make this work effective there had to be some central person in supervisory charge of all procurement of all services, and I made that recommendation to the President of the United States, and I am glad to see—not because it is my recommendation—that which happened yesterday.

Mr. Nelson, as I understand from what I have read, has been put in central control over all procurement. That is an enormous step forward.

The CHAIRMAN. Since it has now happened, I believe it would be all right for us to state that you made that recommendation to us in executive session almost a month ago.

Mr. ODLUM. I did that.

The CHAIRMAN. And I want to state, too, that Mr. Nelson is a fine man for the place.

Mr. ODLUM. He is.

The CHAIRMAN. I have been dealing with him since he has been in the service of the Government, and I think the President could not have picked out a better man.

Mr. ODLUM. That is true.

Production is essentially procurement. You have to procure first. We have been helping to some degree in procurement in our Division for many months. We have in our office files throughout the country—we have 104 branch offices today scattered throughout the United States, and among their various duties is the duty of getting the records of all the plants in those areas and their facilities, and we have only 60,000 of those records gathered today and we have made some studies from that record as to what might be done with present facilities, maintaining the essential minimum civilian economy in the way of essential war production.

One study was made by an advisory committee of plant and management engineers of national reputation, and one from an entirely different angle, which was, you might say, an analytical study.

It is apparent from both those studies that we have enormous productive power that still must be brought in.

Now, I want to say one other thing. I have made two other recommendations that I think will help this along.

I have been trying since I came to Washington to work with the armed services, and I have succeeded. We all know that they have been following a pattern for many years, and that pattern, some of us think, is not the way to get quick action when you want an enormous quantity of materials, but I have felt the way to do it was to cooperate and serve the best we could to prove to them how we could help, and we have succeeded, day by day, in doing that.

Our field offices alone in the month of December brought to over 5,000 factories over \$250,000,000 worth of work. That doesn't count what my own division in Washington has done with industry like distress communities which we handled, or washing machine industry. It only includes work in the field where we find a plant and take it to a prime contractor or some procurement agency.

I made up my mind that to get the quickest action now it would be much better, from the standpoint of the good of all, if the Contract Distribution Division of O. P. M. could be transferred from O. P. M. altogether and made an adjunct, slave or whatever you want to call it, of the armed services, thereby putting ourselves under their jurisdiction and giving them 1,500 additional people to help find new resources and then spread the work.

The CHAIRMAN. I don't see how that is consistent with what you said when you said it is inconsistent for the Army and Navy to assist small business and give first consideration to war preparedness.

If you say it is inconsistent, I don't see why you would want to be under them.

Mr. ODLUM. They are two different things. Small business is something that neither the Army nor the O. P. M. should do. It should be a separate body.

The CHAIRMAN. Oh, a separate body?

Mr. ODLUM. Oh, yes.

I made the recommendation that our division be attached to the armed services and work for them. We can show them how to get business.

There is one other thing that I have recommended that I think bears on this whole problem, and that is these new facilities that I mentioned.

Well, on the average, \$1 worth of new facilities can produce about \$2.50 of output a year. That means that \$15,000,000,000 of new facilities are bound to produce close to \$40,000,000,000 of goods when in operation.

If they produce it now they will produce it when the war is over.

Many years during the last decade our total production of the United States has not been much more than \$60,000,000,000, so unless we step up our economy for the whole country very much over what it has been, there won't be enough work to go around.

Is the new plant with the fine facilities going to get it and those other fellows going to lose out? If something isn't done, the new plant will take the business away from the old, and therefore I think the question of building new facilities isn't a question that should be passed on entirely by the Army that is looking entirely at its present problem of the prosecution of the war, or even a civilian defense agency that is looking at the problem through the same eyes, as it probably should.

I think there should be an independent board called New Plant Facilities Board, that has on it not only the Army and O. P. M., but some people representing the long-range economic viewpoint. At least, that viewpoint should be taken into account.

Mr. BULWINKLE. Mr. Odlum, I want to ask you one question. You stated just now that you had recommended what was known as the 1-percent plan. When will that plan go into effect?

Mr. ODLUM. That plan is entirely beyond my control now. I initiated this and I got the whole principle approved by S. P. A. B. in general terms, and sent back to O. P. M. to be put into form and applied, and it has gone back to the interested committees to test it industry by industry, and find a way to put it into administration.

I know of nothing else I can do that can be done, except to push it through.

Mr. BULWINKLE. When do you hope to get it through?

Mr. ODLUM. I would hope that thing could be in operation in 2 or 3 weeks.

Mr. BULWINKLE. All right. That is all, Mr. Odlum.

The CHAIRMAN. Mr. Halleck.

Mr. HALLECK. Unfortunately, I was detained, so I might ask something that has been touched on.

First of all, Mr. Odlum, I got a report the other day that possibly some trial of your plan of allocation of critical materials will be tried in Indianapolis, Ind., in my State. Is there anything to that?

Mr. ODLUM. That is a confusion as between our small-business plan and what is known as the Special Hardships Allocation. That is something I was interested in as a part for all business, big and small.

I felt there were cases where a company was all tuned up and going and could be converted over without loss of time, but when you let it go for 30 days it would run out.

In other cases a concern should stay in civilian life and needed very moderate pieces of small raw materials and, I mentioned this earlier, in fact in October, to Donald Nelson, and he thoroughly agreed with me.

I think he was thinking about it himself.

There was a committee formed and out of that committee came what is known as the Special Hardships Allocation. They have set aside approximately 1 percent of materials so that when these cases come in, big or small business—they will allot to them the materials necessary to carry on either for the short period or to carry the whole production along, because there is some missing link in it. That is what they are going to test out in some locality, to see how it can work, and it has nothing to do with my small-business plan. The two complement each other.

Mr. HALLECK. Are you free to say as to the locality where that is to be tried?

Mr. ODLUM. I understand it is some place in Ohio, but I am not sure.

Mr. HALLECK. One further thing, and the chairman and committee know that I have discussed it with them and it doesn't have much to do with the matter at hand.

I visited the contract distribution office under your charge at Indianapolis, in charge of Mr. Frank Hoke, and I found him to be an able, sincere, hard-working person, who I think, with his staff, has been doing a very fine job. It occurred to me it might be a smart thing to have him come down here and give us some information from the viewpoint of the fellow in the field, as to how this thing is working and what success he is having in bringing the small plants into the defense picture.

Would you have any objection to that?

Mr. ODLUM. I think it is an excellent idea. I want you to understand, however, that we have 104 people just like him, some working with less organized and smaller offices and some with larger offices and speeded up operation.

We have 48 State main offices and the rest are subsidiary offices.

Mr. HALLECK. I did not have particular reference to him, but it should be somebody from the field offices.

Mr. ODLUM. I think it is an excellent idea to get an idea or how it is working directly from a field official.

I think while I am here I might take a couple more minutes to tell you a little or give you an outline of what this Contract Distribution Division is supposed to be doing and what it has been actually doing during the 4 months it has been in existence.

The CHAIRMAN. In which you would place in the record the locations of these different offices and, if you have the names of the managers and the officers in charge, we would appreciate that.

Mr. ODLUM. We will have those in the record either this afternoon or tomorrow morning. Will tomorrow morning be sufficient?

The CHAIRMAN. We will have the record printed tonight. By getting it over this evening it can go in the record tonight and be available for distribution tomorrow.

Mr. ODLUM. That will be here within half an hour.

(The data referred to is as follows:)

Directory of field offices

[Revised to 1 p. m., eastern standard time, Jan. 5, 1942]

(*Indicated main office in State)

State	Manager	Telephone	Address
Alabama: Birmingham*	L. E. Geobegan	4-7761	301 Pheonix Bldg., 1705 2d Ave. N. 406 Security Bldg.
Arizona: Pheonix*	Fred F. Schalmo (acting)		
Arkansas: Little Rock*	Alfred M. Lund (State director)		304 Rector Bldg., 3rd and Spring Sts.
California:			
San Francisco	Col. Francis M. Smith	Underhill 3301	Furniture Mart. 1355, Market St.
Fresno	E. H. Cameron (acting)	Fresno 4-5119	314-318 Martei Bldg.
Los Angeles	Howard Hutchins	Richmond 1261	1031 S. Broadway
Oakland	W. P. Collins (acting)	Hicatz 6816	209 Financial Center Bldg.
Sacramento	E. H. Cameron (acting)	2-5308	Farmer's and Mechanic's Bldg.
San Diego	Paul C. Farmer (acting)	Franklin 8907	510 Union Bldg.
Colorado: Denver*	Clyde C. Hartzell (State director)	Main 4231	United States National Bank Bldg., S17 17th St.
Connecticut:			
Hartford*	Earl L. Milliken (State director)		Pheonix Bank Bldg., 805 Main St.
Bridgport	Raymond L. French (acting)		
Delaware: Wilmington*	Bradley L. Giest (acting)		Medical Bldg., 144 Golden Hill St. 314 Penn Bldg., French and Water Sts.
Florida:			
Jacksonville*	Chas. C. McCubbin (State director)		620 Hildebrandt Bldg.
Miami	Forrest D. Banning (acting)	2-7436	514 Congress Bldg.
Tampa	Arthur B. Hale		901 Wallace S. Bldg.
Georgia: Atlanta*	W. C. Cram, Jr.	Jackson 5880	Suite 150, Hurt Bldg.
Idaho: Boise*	H. W. Bogie (acting)	409	409 Capital Securities Bldg.
Illinois:			
Chicago*	Thos. S. McEwan	Andover 3600	20 North Wacker Drive.
Springfield	Edward Gerrity	3-6211	407 Leland Office Bldg.
Indiana:			
Indianapolis*	Frank Hoke (State director)		Circle Tower Bldg.
Evansville	Vincent Terry (acting)		
Fort Wayne	George A. Dinuen	Anthony 8415	Keonic Bldg., room 8. 410 Utility Bldg., 114-18 E. Wayne St.
South Bend	H. E. Richardson		112 W. Jefferson Blvd.
Iowa: Des Moines*	George Beese (State director)	4-1909	708 Crocker Bldg.

Directory of field offices—Continued

State	Manager	Telephone	Address
Kansas: Wichita*	Harold Hartzell (State director)	George B. Weeks (chairman, advisory committee).	517-518 Union National Bank Bldg.
Kentucky: Louisville*	Prentiss M. Terry		206 Todd Bldg.
Louisiana: New Orleans*	R. E. Judd (State director)	A. B. Paterson (chairman, advisory committee).	Room 423, Canal Bldg.
Shreveport	R. H. Cone (acting)		916 Gildens Lane Bldg., Milan and Marshall Sts.
Maine: Portland*	Herbert Payson, Jr. (State director)		2-0914
Bangor	Charles E. Walker (acting)		Bangor 6300
Maryland: Baltimore*	G. W. Creighton (State director)	W. F. Roberts	1254 Baltimore Trust Bldg.
Massachusetts: Boston*	Edward V. Hickey (State director)		17 Court St.
Fall River	Harold S. Ramsay (acting)		27 South Main St.
Lowell	W. E. Stanwood (acting)		7-9306
Springfield	Howard G. Philbrook		Lowell 6388
Worcester	Dwight Clark Daniels		2-7493, 2-7494
Michigan: Detroit*	Warren H. Clarke (State director)	Clarence Avery (chairman, advisory committee).	95 State St.
Grand Rapids	George A. Dimmer (acting)		6-4671
Minnesota: Minneapolis*	Harold C. Timberlake	Roger Shepard (chairman, advisory committee).	Federal Reserve Bank Bldg., 160 Fort St. W.
Duluth	Earl H. Pitney (acting)		1004 Michigan National Bank Bldg.
Mississippi: Jackson*	A. G. McIntosh (acting)		326 Midland Bldg.
Missouri: St. Louis*	F. J. McDewitt		416 Federal Bldg.
Kansas City	R. W. Webb		610 Tower Bldg.
Montana: Helena*	R. E. Towle (State director)	J. E. O'Connell (chairman, advisory committee).	Central 3200
Nebraska: Omaha*	Arthur Walker (State director)		Boatmen's Bank Bldg., Locust St.
Nevada: Reno*	Edwin S. Bender (acting)		Federal Reserve Bank Bldg., 10th St. and Grand Ave.
New Hampshire: Manchester*	S. H. Dann (acting)		222 Power Block Annex.
New Jersey: Newark*	R. L. Kennedy (State director)		501 Grain Exchange Bldg., 19th and Arney.
New Mexico: Albuquerque*	George Lusk (State director)	Tom Jones (chairman, advisory committee).	Saviers Bldg.
			Amoskeg Industries Bldg., Stark St.
			Globe Bldg., 20 Washington Place.
			103½ West Central Ave.

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New York:	W. O. Crabtree		Murray Hill 3-6810	Chanin Bldg., 122 East 42nd St.
New York City *	F. J. Holman		5-1749	State Bank Bldg., 75 State St.
Albany	Emile Weinberg	John J. Lenahan		16 Court St.
Brooklyn	Thos. J. O'Rourke			Manufacturers' & Traders' Bank Bldg., Room 212, Main & Swan Streets.
Buffalo				119 E. Main St., Commerce Bldg.
Rochester	Mahlon Gregg		Main 546	302 Starrett-Syracuse Bldg., 224
Syracuse	T. D. Harter		2-1343	Harrison St.
		Robert R. Haines (chairman, advisory committee.)		New Liberty Life Bldg.
North Carolina: Charlotte *			174	14 First National Bank Bldg.
North Dakota: Bismarck *	Paul W. Fawcett (acting)			Union Commerce Bldg., E. 9th and
Ohio:	Dr. Charles Terry (State director)	Herman Lind (chairman, advisory committee).	Cherry 5975	Chester Ave.
Cleveland *		Clifford Wright		Room 804, Union Trust Bldg.
Cincinnati	Clifford Schulte			305 Spahr Bldg., 50 E. Broad St.
Columbus	Benjamin J. Zubars (acting)			1021 Third National Bank Bldg.,
Dayton	Collins Wight (acting)			32 North Main Street.
Toledo	Henry A. Jordan (acting)		3-0415	519 Spitzer Bldg.
Youngstown	Leif Oyen (acting)			1002 Union National Bank Bldg.
Oklahoma:	Morton R. Harrison (State director)	Fred Jones, (chairman, advisory committee).	7-2456	1002 Key Bldg.
Oklahoma City *				435 Kennedy Bldg.
Tulsa	John H. Keys (acting)	Thomas Harry Bamfield	2-3274	815 Bedell Bldg.
Oregon: Portland *	John G. Barnett (acting)		Atwater 7241	
Pennsylvania:	Orville H. Bullitt, (State director)	Thomas S. Gates (chairman, advisory committee).		Broad St. Station Bldg., 1617 Penn-
Philadelphia *				sylvania Blvd.
Allentown	Ernest R. Follin, Jr. (acting)		2-4331	506 Hamilton St.
Chester	Abbott Smith			12-14 East 5th St.
Erie	Harry B. Joyce (acting)			Erie Trust Co. Bldg.
Harrisburg	Ritchie Lawrie, Jr. (acting)			Black Stone Bldg., 3d and River
Johnstown	John S. Wagoner		6-1251	Sts.
Lancaster	Arthur K. Barnes		2-0011	United States National Bank
Norristown	George Peterson, Jr.	Alex E. Walker	6,760	Bldg., 216 Franklin St.
Pittsburgh	M. F. McOmber		GR 3790	655 Woolworth Bldg.
Reading	John A. Archer (acting)			306-308 Norristown-Penn Trust
Scranton	Z. P. Eyre Price			Bldg.
Wilkes-Barre	W. H. Pierce			406 Fulton Bldg.
Williamsport	Fred J. Livingston			615 Penn St.
York	Richard S. Cole		9086	Room 717, First Natl. Bank Bldg.
Rhode Island: Providence *	Walker Mason (State director)	Col. William Shawcross (chairman, advisory committee).	Dexter 5773	53 West Market St.
				Susquehanna Trust Co. Bldg., 120
				W. 4th St.
				Manufacturer's Association Bldg.,
				25 N. Duke St.
				530 Industrial Trust Bldg.

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Directory of field offices—Continued

State	Manager		Telephone	Address
South Carolina: Columbia*	D. E. McDuffie (acting)		2-8645	Room 294-296 Manson Bldg., 1207 Taylor St.
South Dakota: Sioux Falls	Fred M. Chase (acting)		1146	309-310 Boyce Greely Bldg.
Tennessee: Memphis*	Arthur M. Field (State director)	Arthur J. Dyer (chairman, advisory committee).		2112 Sterick Bldg.
Chattanooga	Paul E. Shacklett			909-910 James Bldg.
Knoxville	W. W. Mynatt (acting)			202-204 Goode Bldg.
Nashville	W. G. Whitsitt			1014 Stahlman Bldg.
Texas:		Charles R. Moore	Riverside 4651	Fidelity Bldg.
Dallas*	A. J. Langford	W. R. Blair	Main 2881	222 El Paso National Bldg.
El Paso	L. A. Wilke	R. Lee Blaffer		Federal Reserve Bank Bldg., Texas Ave. and Caroline St.
Houston	I. M. Griffin			1100 South Texas Bank Bldg., Houston & Navarro Sts.
San Antonio	P. E. Locke	Ernl Youngblood		306 David Keith Bldg.
Utah: Salt Lake City*	Bayard W. Mendenhall (acting)	George M. Gadsby	3-7576	12 State St.
Vermont: Montpelier*	A. M. Creighton, Jr. (acting)		1410	Johnson Publishing Bldg., 5th and Cary Sts.
Virginia: Richmond*	Julian Lorin Mason		7-2331	
Washington:		J. G. Larson (chairman, advisory committee).	Main 2155-2156	3314 White Bldg., 4th and Union Sts.
Seattle*	Harry J. Martin (State director)		Main 3521	Room 629-630 Old National Bank Bldg.
Spokane	Lars Carlson			Corner Capital and Quarrier Sts.
West Virginia:		John A. Kennedy (chairman, advisory committee).	Capital 39-511	1025 Main St., Hawley Bldg.
Charleston*	Charles Snyder			
Wheeling	E. C. Drake			
Wisconsin:		Harold H. Seaman (chairman, advisory committee).	Broadway 4440	610 First Wisconsin National Bank Bldg.
Milwaukee*	Clifford E. Ives (State director)			128½ Graham Ave.
Eau Claire	Dorance W. Walters (acting)		2-1395	405 Washington Bldg.
Madison	John D. Howard (acting)			P. and R. Bldg.
Wyoming: Casper*	W. F. Wilkerson (State director)		3196	

1. We have set up a plan of country-wide operation on State lines; organized 45 main State offices and an additional 56 subsidiary offices and staffed them with over 1,000 employees.

2. We have organized in Washington a general and supervisory office with over 500 employees for procurement, requirements, facilities, engineering, planning, contract placement, and related subjects; have had our personnel accepted to work with the armed services in the planning and procurement branches to help spread work. Today we have two of our men in every procurement office of the Ordnance Department of the Army.

3. We have prepared and had accepted by the armed services a law to eliminate legal impediments to spreading of work by eliminating competitive bidding and bonds, permitting zone ordering, educational orders, etc. It is a short law and was followed by Executive order and secretarial directives. We don't have to have any more competitive bidding.

4. We have held 7 major and numerous smaller industrial clinics attended by over 540 prime contractors and over 23,000 prospective subcontractors.

5. We have organized three special defense trains that visited 70 cities and displayed over 60,000 "bits and pieces" to 50,000 manufacturers.

6. We have established eight prominent exhibits; and we have others in course of being opened.

7. We have checked and certified 13 distress communities for remedial orders from the armed services and checked over 100 more preparatory to action on certification with business estimated at \$50,000,000 going to these communities.

8. We have aided in the organization of over 50 pools of manufacturers and have aided many pools in getting their set-up approved by the Department of Justice and the others that they have to go to. We have assisted these pools in obtaining over \$100,000,000 worth of orders.

9. We have converted the washing-machine industry to war production. That is the only industry that has been converted really to war production. Everything else has been done on the plant basis and there is some discussion now of industry conversion, but this is the only one that has ever been done. We got that industry about \$12,500,000 of orders.

10. We have prepared proposals for bidding for small business.

11. We have organized subcontracting divisions in many large companies of the United States to work specially within the organization and with us in spreading work through subcontractors.

12. We have helped the armed services to find many new sources of supply.

13. As I stated to you a little earlier, in December alone—this is our field work, not the armed services—we brought 5,000 plants into defense business, amounting to \$250,000,000, which does not include the \$100,000,000 to the washing-machine industry and distress communities.

14. Through our field offices we have obtained records of over 60,000, probably about 70,000 plants, and facilities, and a large proportion, although away less than half, we have personally inspected. Inspection was made by our engineers, so we know the records are correct. We can go to the services with the proof.

15. Finally, just as a matter of growth, and the growth has been constant and will be cumulative from now on because our organization period is over, the contracts to be placed in the field by our division have increased as to prime contracts from \$20,000,000 in July to \$115,000,000 in December, and subcontracts from \$17,000,000 in July to over \$100,000,000 in December.

There is still a large job to do, a much greater job to do in the future than we have in the past.

We think we have about one-third of the men we really need and we can step this figure up month by month until by spring we will be showing something approaching a billion dollars a month.

This month we are working at passing out about four and a half billion of orders coming through from the armed services, and we are helping them be placed in the field in an advisory service capacity only.

I have nothing further to add to this, unless there are some questions.

Mr. KELLY. Your office at the present time only acts in an advisory capacity to the units of the War and Navy Departments?

Mr. ODLUM. That is right, and to small business and the industry generally.

Mr. KELLY. The War and Navy Departments are the sole authorities on the war program?

Mr. ODLUM. The O. P. M. as a unit acts in an advisory capacity on all matters relating to the war program. Our unit only acts with the armed forces in matters relating to spreading of work to smaller plants, not only smaller business, but everything less than the big fellows who have been having the work to do.

Mr. KELLY. Heretofore most of the contracts allocated by the War Department have only got into the hands of certain individuals. There has not been enough spread in that work to either the sub-contractor or prime contractor to distribute it equally amongst many business people who could convert their industrial institutions into helping the war program?

Mr. ODLUM. That is correct. That was the fact for two reasons. First of all, it was much safer, and it was easier for the Army when they didn't need all the capacity which was there and were only pulling on 10 or 15 percent of the productive resources of the United States, to go to established sources.

Mr. KELLY. Under the authority vested in Mr. Nelson now, I wonder if that would help to rectify some of the abuses of the past?

Mr. ODLUM. I believe it will.

Mr. KELLY. I hope so.

Mr. ODLUM. I want to say also that the number of prime contractors being dealt with by the armed services have been increasing every week, and I want to say also that the amount of subcontracting done in the United States is increasing very much and we have the feel of it through the country and we don't know the figures, but the figures will be prepared as of the end of the year and we will have a comparison with last May.

Last May work was being done to the extent of about 25 percent on subcontracts, related to work that was susceptible to subcontracting. I think that figure is going to show up much higher in January, I think maybe as high as 35 or 40 percent.

I have checked recently some units in the aviation industry. Last September their figure was about 25 percent. When you get tooled up into a model airplane, you tell the amount of subcontracting you are going to do on that job. Every new job coming on increases the amount. Some of them are going to do as much on their new stuff as 50 percent. That still isn't enough. There has to be more and more done, and there will be.

Mr. KELLY. I am mighty glad to hear that. That is all I have.

Mr. HALL. Mr. Odlum, on the question you spoke about a moment ago, that in December you were able to put out some \$25,000,000,000 of contracts, were those prime contracts from the Army and Navy, or did that include some subcontracts?

Mr. ODLUM. That was more subcontracts than prime contracts. I should say almost half and half, probably 55 percent sub and 45 percent prime.

I want to make this clear. We work with the Army and Navy here on planning a lot of stuff that goes out in the way of prime contracts

that is not contained in this figure at all. We work with prime contractors like General Electric and Westinghouse in getting them to do more subcontracting and showing them from this end where they can do it. There is where I think we are spreading work in armaments. But we don't include it in our figures.

I figured some time back that of present plants with employees of more than 20, there were about eighteen to twenty thousand that could be converted to war production. Well, if we can reach 5,000 plants in 1 month, we don't fill them up, naturally. They are just getting orders to keep them busy for a month or so in many cases, and the number has grown every month we have been in office.

As indicating what can be done in the future, I think it is only a matter of months before we will, with this new procurement set-up particularly, have all these plants that do not need to be used in civilian life pretty well working in the war work.

Mr. HALL. Do you think you can accomplish that end on a voluntary basis, rather than have Congress pass laws with reference to such contracts?

Mr. ODLUM. I think it is a mistake to try to fix the amount of subcontracting that a fellow must do. It varies too much from job to job.

In some cases practically none of it can be subcontracted. In other cases nearly the whole thing can be subcontracted.

The Sperry people today are subcontracting about 85 percent of everything they are doing for the Government. One of my associates has mentioned the difference between the bombsight and a tank. In a tank a large amount can be subcontracted. In the case of the bombsight you can't do it. It has to be done in one specific place.

Mr. HALL. And do you say you have to receive the fullest cooperation from the Army and Navy?

Mr. ODLUM. I say that I have tried to work through the basis of cooperation, and that is the only way any results we have had have come.

But I want to say this before I drop the subject of contracts. While I don't think a fixed percentage is possible as an overriding rule, I think it is absolutely essential that the amount of subcontracting that is going to be done in connection with any particular job be negotiated and fixed at the time the contract is made, because it will enter into the price.

Mr. HALL. That provision should be put into the prime contract?

Mr. ODLUM. Yes; because subcontracting is going to cost more money and, if you leave it to a prime contractor after the price has been negotiated, he will subcontract the amount suitable to him. After the price has been fixed it is too late.

Mr. HALL. Someone sent this question up, Mr. Odlum, in relation to automobiles, and the question is: Do you feel that with the strategic materials that are needed, that there would be any possibility of producing say 15 or 20 percent of our production of automobiles as compared with 1941, or any percentage of that production?

Mr. ODLUM. I am not qualified to answer that question. It is out of my bailiwick.

I can only say in general terms that the automobiles use metals that can and should be used in other fields and, therefore, the automobile production should not be looked upon from the standpoint of anything except what is the minimum that civilian economy needs. All the rest of it can be used in other ways.

Mr. HALL. Thank you very much. That is all.

The CHAIRMAN. I have a copy of the Executive order creating your office. If you don't have a copy handy, let us introduce this. Do you have one?

Mr. ODLUM. Yes, sir; you may just introduce that one, though.

The CHAIRMAN. I think it would be preferable to take it from your files. This one has been copied, and there may be some errors.

Mr. ODLUM. I would like to introduce not only the Executive order, but the release that went along with it because it has a bearing on the interpretation.

(The Executive order and release are as follows:)

[Hold for release, September 4, 1941]

The following statement and the Executive order accompanying it are for release in papers appearing on the street not earlier than 8 p. m., eastern standard time, September 4, 1941.

The same restriction applies to its use over the radio.

STEPHEN EARLY,
Secretary to the President.

The President today, after conferring with Under Secretary of War Patterson, Under Secretary of the Navy Forrestal, Mr. William S. Knudsen, and Mr. Sidney Hillman, acting as the council of the O. P. M., and with Rear Admiral Emory S. Land, chairman of the United States Maritime Commission, issued an Executive order establishing a new division in the Office of Production Management.

This division is to be known as the Division of Contract Distribution, and is to be coordinated with the existing divisions—Procurement, Production, Priorities, Labor, and Civilian Supply.

Floyd B. Odlum, of New York, has been appointed Director of the new Division.

The conference was held and the Executive order was issued in furtherance of a determined move on the part of the administration to help the smaller business units of the country obtain a fair share of the defense orders, and to prevent, so far as possible, dislocation of industry and unemployment of workers in plants where production has been curtailed by priorities and material shortages.

The program devised was arrived at in consultation with representatives of the Army, Navy, Maritime Commission, and O. P. M., and has the full support of these agencies.

The Labor Division and the Defense Contract Service of O. P. M. have already done a great deal in starting the machinery of subcontracting and in retraining and obtaining reemployment for discharged workers. The program is now to be greatly expanded throughout each part of the United States, as one of the most important functions of O. P. M. The present personnel, records, etc., of the Defense Contract Service of O. P. M. will be transferred to this new Division.

Through this Division, the Office of Production Management will be enabled more effectively to adjust the dislocations and alleviate unemployment resulting from priorities and material shortages, and bring about maximum use of the Nation's factories and industrial plants, especially the smaller ones, throughout the Nation. This will be done through four major steps:

1. The breaking down of large orders of supplies into smaller units, and spreading the purchases among more firms and in all localities possible.
2. Providing assistance through the Labor Division of O. P. M. in retraining and obtaining reemployment for workers who are unemployed as a result of the shutting down of some plants or reduction of their output.
3. The effective distribution of defense contracts to the smaller business enterprises, as yet largely unused, through an expanded use of subcontracting, contract distribution, and the pooling of plant facilities.

4. By providing a staff of industrial and production engineers to formulate and execute specific plans for the conversion of nondefense industries and plants to defense production.

The Division of Contract Distribution will have branch offices located in the various States.

The Division will formulate and promote plans and programs for the purchase of supplies for the Army and Navy in smaller units, but among a greater number of firms and in as many different localities as possible. It will also formulate and develop programs for the conversion of plants and industries from civilian to defense production—with the assistance of the Government wherever necessary. It will formulate the organization and use of local industrial defense production associations, and will promote and stimulate farming out of defense work and subcontracting, wherever feasible.

The Division of Contract Distribution will provide an industrial engineering staff whose responsibility it will be to obtain the maximum use of existing facilities and tools by assisting manufacturers and business enterprises in making the necessary changes in their tools and equipment for effective use in defense production.

The field offices of the Division of Contract Distribution will be adequately staffed to render needed assistance to businessmen. Procurement agencies of the Government will assign representatives to the main office and field offices, as required for purposes of liaison.

In the various cities will be established exhibits or market places where there will be displayed specific parts—bits and pieces—the components needed for defense production. These may be parts of a machine gun, or an airplane, or tank, or any one of a thousand other items which are needed. These bits and pieces will be labeled as to the quantities needed and the machine tools and operations required for their production so that any machine shop owner or manufacturer can determine whether his facilities are capable of producing such items.

Subcontracting arrangements can then be entered into on the basis of what an individual sees he is capable of doing, receiving then and there the expert industrial and engineering judgment of those whose assistance he may desire.

The Division of Contract Distribution will also provide through the regular commercial banking channels, the Reconstruction Finance Corporation, including the Defense Supplies Corporation and the Defense Plant Corporation, and the Federal Reserve banks and their branches, the necessary financing facilities for local industrial production associations, prime contractors and subcontractors, and will recommend whenever necessary such additional financial procedures and machinery as may be required to obtain the maximum utilization of existing plant and tool facilities for defense purposes.

The Director of the Division is to appoint two advisory committees, one to consist of representatives of small business organizations; the other, to consist of industrial, management, and production engineers.

It is intended, on the one hand, to face the responsibility of alleviating the hardships which have resulted from the defense program and, on the other, to marshal our productive capacities to the objective that no plant or tool which can be used for defense shall be allowed to remain idle.

The text of the Executive order follows:

EXECUTIVE ORDER ESTABLISHING THE DIVISION OF CONTRACT DISTRIBUTION IN THE OFFICE OF PRODUCTION MANAGEMENT AND DEFINING ITS FUNCTIONS AND DUTIES

By virtue of the authority vested in me by the Constitution and the statutes of the United States, and in order to define further the functions and duties of the Office of Production Management with respect to the unlimited national emergency as declared by the President on May 27, 1911, and to provide for the more effective utilization of existing plant facilities for defense purposes; the conversion into defense production of civilian industries affected by priorities and raw material shortages; the alleviation of unemployment caused by the effects of such priorities and shortages; the local pooling of facilities and equipment; subcontracting; and the wider diffusion of defense contracts among the smaller business enterprises in every part of the nation, it is hereby ordered as follows:

1. There shall be within the Office of Production Management a Division of Contract Distribution at the head of which shall be a Director appointed by the Office of Production Management with the approval of the President. The Director shall discharge and perform the following responsibilities and duties under

the direction and supervision of the Director General acting in association with the Associate Director General:

(a) Formulate and promote specific programs for the purchase of supplies for the Army and Navy in smaller units but among a greater number of firms and in as many different localities as possible.

(b) Formulate and promote modifications in Federal procurement practices and procedures relating to negotiating contracts, bidding practice, performance and bid bonds, and other practices and procedures, to the end that there shall be a wider distribution of defense contracts and purchases.

(c) Develop programs for the conversion of plants and industries from civilian to defense production, with the assistance of the government if necessary.

(d) Stimulate the organization and use of local industrial defense production associations.

(e) Promote and stimulate subcontracting wherever feasible.

(f) In order to obtain maximum use of existing productive facilities and tools, advise manufacturers and business enterprises the specific ways in which their facilities and tools may be utilized in defense production; advise such manufacturers and businessmen with respect to the procedures and practices of the several federal procurement agencies.

(g) Facilitate through the regular commercial banking channels, the Reconstruction Finance Corporation, and the Federal Reserve banks and their branches, the necessary financing facilities for prime contractors, subcontractors, and local industrial defense production associations, and recommend from time to time to the Director General such additional financial procedures or machinery as shall be required to ensure maximum utilization of existing plant and tool facilities for defense purposes.

(h) Provide engineering and technical assistance to such prime contractors, subcontractors, and local industrial defense production associations as may require such assistance in order to participate in defense production.

(i) Perform such other duties and responsibilities as the Office of Production Management may from time to time determine.

2. To ensure unity of policy and coordinated consideration of all relevant factors involved in the formulation and execution of industry conversion programs, and contract distribution and subcontracting procedures, all such programs or procedures shall clear through the Division of Contract Distribution.

3. To aid the Director in carrying out the aforesaid responsibilities, there shall be assigned to the Division one or more officers of the Departments of War and the Navy, respectively, and one or more representatives of the Maritime Commission, whose duty shall be to assist as liaison in the speedy and successful carrying out of the aforesaid program.

4. There shall be in the Division of Contract Distribution two Advisory Committees consisting of representatives to be designated by the Director of the Division with the approval of the Office of Production Management. One shall be representative of small business organizations; and the other of industrial, management, and production engineers. The Committee shall, from time to time, upon request by the Director, make findings and submit recommendations to the Director with respect to procurement practices and procedures; contract placements and distribution; industry conversion problems; formation of local production associations; subcontracting; and for such other matters as the Director may require advice and assistance.

5. Within the limits of such funds as may be made available to the Division of Contract Distribution, the Director may appoint industrial and production engineers, economists, statisticians, and such technical and other personnel as he shall deem necessary to carry out the duties assigned to the Division herein.

6. The Director may establish branch offices throughout the United States and its territories to carry out his duties. There shall be assigned to such branch offices such officer personnel or other representatives of the Army, Navy, United States Maritime Commission, and other Federal procurement agencies as may be required by the Director for liaison purposes.

7. There shall be assigned to the main office and to each field office of the Division a representative of the Labor Division of the Office of Production Management to cooperate with such offices in the Labor Division's efforts toward reemployment of employees of plants whose production has been curtailed by priorities and material shortages.

8. In the execution of the foregoing duties, the Director of the Division of Contract Distribution shall consult and collaborate with the War Department,

the Navy Department, the United States Maritime Commission, and other government procurement agencies, which are hereby directed to cooperate with and establish close liaison with such Division to accomplish the purposes of this order.

9. The Defense Contract Service, established pursuant to Regulation No. 9, July 20, 1941, of the Office of Production Management, is hereby abolished. The duties and responsibilities of said Defense Contract Service are hereby assigned to the Division of Contract Distribution. All records, files, and equipment of the Defense Contract Service shall be transferred to the Division of Contract Distribution.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE, September 4, 1941.

Mr. FITZGERALD. I, of course, have been very much interested in the progress that has been made since the last meeting in spreading these subcontracts out to smaller businesses. But, for the last 2 days we have had a very interesting hearing here in regard to the automobile men, who, in my opinion, are on very dangerous ground and in danger of being put out of business altogether.

I want to ask you this question: Whether it is your belief that when a dealer has a well-equipped shop with 15, 25, or 30 employees, should he register with your State representative in an effort to obtain some of this work that will be sublet?

They have machinery, they have equipment, and they have good mechanics, and they are facing, in my opinion, a loss of a complete life's work, the danger of a complete life's work being pushed out in the next 6 months or year.

Now, with the servicing of their automobiles that they can pick up, is it possible they could be included as small businessmen to obtain some of these contracts that will protect their business, that is, during the extent of this emergency?

Mr. ODLUM. I think that all these dealers who have shops with machine tools in them who are capable of doing something should by all means register with our office.

I wish I could be more optimistic than I am about the ability in the next few weeks or months to carry to those shops any substantial portion of the war business, because there will be a speed about this procurement because of the urgency and the amount, and it will be easier and cheaper, although cheapness is not the element that is entering into it today, to get from some of the larger factories and I think the small automobile factories or shops are going to fall largely into the classification of what I define as small business.

It is a separate problem that must be taken care of in civilian life to the extent that if we can't find them a contract they must be treated as an economic problem or a casualty in the war.

There are many things apart from the production that can be done. If a man has his farm trampled down because soldiers are tramping over it, he gets something for his crop. If his house is torn down so they can build an airport there, there is some procedure about that.

I am speaking now in general terms. A lot of these fellows are in the same category, and there are a lot of things the Government could do for these people as a class in the way of financial aid, such as, for instance, release of income-tax payments during a period, we will say, for this year. If they are losing their businesses maybe they should

not be compelled to pay the tax. Maybe they ought to have that as a surplus to carry on for a period.

If some agency charged with responsibility made it its job to look into it, there are many things that could be done.

My job has been in the manufacturing end of it. There are 200,000 manufacturing units, whereas business units are about two and a half million, I think.

The CHAIRMAN. Have you finished, Mr. Fitzgerald?

Mr. FITZGERALD. Yes.

The CHAIRMAN. Mr. Ploeser.

Mr. PLOESER. Mr. Odlum, is this new agency set up by Mr. Donald Nelson charged with supervision of all procurement?

Mr. ODLUM. We can only guess as yet because there has been no Executive order drawn. All we know is what has been carried in the papers, but my own belief is that it means that procurement will be supervised. Procurement, perhaps, will not be taken from the armed services and put in one central spot, but everybody in any of the services, not only the Army but probably all the procurement agencies of the Government will be supervised in that one spot so there won't be competition and overbuying and underbuying. I think that is more likely to happen.

Mr. PLOESER. Is it your opinion that civilian experience would be extremely beneficial to the procurement program of both the Army and the Navy?

Mr. ODLUM. I think it is essential.

Mr. PLOESER. I am glad to hear you say that.

To what extent has the Army and Navy cooperated with your office in the distribution of construction of special plants?

Mr. ODLUM. The only place we come in contact with that type of work is because we have one member from our Division sitting on an interdivisional O. P. M. committee of the Plant Site Committee, and when anything comes up that requires Government money to build new facilities over a certain amount, it comes before that committee. We have had so many problems where we felt we could give some help and couldn't that we have devoted our attention to these other phases.

Mr. PLOESER. Is there any reason why your office couldn't go into this field?

Mr. ODLUM. No; except that there have been too few men to work and too few hours in the day to do it.

Mr. PLOESER. Would it be within your province to do that with adequate personnel?

Mr. ODLUM. No; we have just one member on there. If we can find substitute facilities for some plant that is coming up to be built, we recommend against building the portion that would be substituted.

Mr. PLOESER. I think we have all found that there has been a very strong tendency on the part of the Army and probably less tendency on the part of the Navy to center all of its construction contracts in the hands of a very few contractors, many of whom are now over-expanded, far beyond their efficient capacity. That leaves many medium-sized and smaller contractors completely idle with machinery and personnel on their hands, contractors who are well qualified to do much of the work that is concentrated in the big contractors.

Mr. ODLUM. I understand that most of the cantonment work has been completed.

Mr. PLOESER. And it has been the hope of many members of this committee that some civilian agency might be helpful in causing the Army to give a wider distribution—and the Navy likewise—to these contractors.

Mr. ODLUM. There has been great difficulty, I think, up to date in certain overlappings of authority and certain confusion as to authority, which I think is going to be cleared up.

I am very optimistic as to the results that will be accomplished by this centralization.

Mr. PLOESER. I am, of course, of the opinion that this centralization (W. P. B.) is the finest thing that has happened around here in a long time. It is 18 months late but better late than never.

You said a while ago, in answer to a very important question by the chairman about the civilian production of those small plants, that you said it could be done and it could be done without interference with the arms program, the war program.

I would like to ask you to answer the question positively now. Do you think it would enhance or increase the production of the arms program if the smaller plants could be kept in the manner in which you have in mind?

Mr. ODLUM. I think it would enhance mobilization of industry, if that is answering your question, because the war program and civilian production must be added to get the full production. If we let any of them slow down we will have taken them out of the stream of production, all of which we need.

Mr. PLOESER. Many lines of civilian supply are as necessary as guns. Is that right?

Mr. ODLUM. That is right.

Mr. PLOESER. You answered a question a while ago that you are operating your offices along the State lines.

Mr. ODLUM. Yes.

Mr. PLOESER. Is there any definite reason for that, rather than operating it across your trade territories, or probably Federal Reserve districts?

Mr. ODLUM. Yes; there was a reason for it. When I came into Washington under this Executive order I took over what was called a defense contract service bureau in the O. P. M. which had been set up in a small sort of way in the Federal Reserve banks. They had one office in each Federal Reserve bank. Now, they were not in very good order. They were not for a couple of reasons. The offices, located as they were, in the financial districts and only in some of the main cities, the smaller people did not like to go down for one reason or another.

I do not say there was any justification in it, and it is certainly no criticism of the Federal Reserve. They did a fine job. They paid the pay roll for us; they supervised all the work; they helped with the finances, but it was felt at the time that I was given that job that the set-up in that respect was wrong and should be changed. I have that more or less—

Mr. PLOESER. That is the situation in the banks?

Mr. ODLUM. Yes; being in the Federal Reserve districts, in the banks.

Mr. PLOESER. The thing that was in my mind was, why didn't you move out and still follow the district line pretty well?

Mr. ODLUM. Well, there was considerable discussion whether we should do that or not, and it was felt that in many things that we had to do we would work better if we had the cooperation of the various State agencies, such as the chambers of commerce, the national defense, and that if we got it on the State line we could work better.

Mr. PLOESER. Locally?

Mr. ODLUM. Yes; and that is why we went to the State line.

Mr. PLOESER. That answers my question.

The CHAIRMAN. Counsel wishes to ask one or two questions. All right, Mr. Kirkland.

Mr. KIRKLAND. In connection with the President's Executive order setting up your agency, it would be helpful to the work of the committee if you could give us some information as to the activities and personnel involved under each subsection of section 1, and also sections 2 through 8. We do not want to unduly burden you if you have any data presently prepared on such a subject.

Mr. ODLUM. You said the personnel involved?

Mr. KIRKLAND. So that we may have some idea. The small-business people that have conferred here with the committee have been a little confused as to what agencies are involved in what work, and where to go and who to see and what agency would know most about their problems.

Mr. ODLUM. I will certainly give you that, but I am afraid it will not—

Mr. KIRKLAND. Not as to the number of personnel or anything like that, but it would be helpful to have the various department heads of your division.

Mr. ODLUM. We will do that.

Mr. KIRKLAND. We do not want to burden you and time will not enter into that to any great degree.

Mr. ODLUM. I might say this: In my opinion, my work divides itself into two major functions, and everything else in our organization, the personnel, is subsidiary and not important. We have got two sides of it; we have got to find out what the Army and Navy have got coming, and keep what they are going to purchase, and on the other hand we have got to find plants in the United States to do it; so, we have got the requirements on the one side, and contract placement facilities on the other side.

Now, all the rest in our organization divides itself into one of these two categories.

Mr. KIRKLAND. I heard of a businessman who had this experience. I do not know how general it is, so I do not want to say whether it is so or not. He came down here and tried to get hold of the chief of one of these divisions and called up on the phone and for purpose of illustration only let us say he asked for Mr. Odlum, because he had been told the small business problems were settled by Mr. Odlum. The particular division could not talk to him, and he did not want to talk to a subsidiary officer, because he had been told that the particular division chief was the one that solved all the problems; so he went back home and said he didn't know whom to talk to.

Mr. ODLUM. There was probably confusion there. On this so-called small-business plan, all the work has been done by myself and two assistants of my general staff. We have our organization divided into an operating staff and my general staff. The operating staff consists of 500 people and the thousands in the field, and my general staff consists of a half dozen people. With one assistant did all the work on the small business.

Mr. KIRKLAND. Mr. Odlum, the story has no relation to you, as you were not the chief character in the story.

Mr. ODLUM. I see.

Mr. KIRKLAND. In connection with the information that you furnish us with regard to your activities under the specific headings of executive orders, it would be helpful also if you could give the committee some information as to what other agencies of the Federal Government are also duplicating this work that you are doing. I understand there are some.

Mr. ODLUM. I can answer that part of it right now, I believe, because I have tried to find out what agencies in the O. P. M.—

Mr. KIRKLAND. Would you just submit that information for the record?

Mr. ODLUM. I will do that. I would rather not do it piecemeal. I will get it prepared and submit it.

Mr. KIRKLAND. I understand from your statements today that you have been concerned primarily, perhaps exclusively, with manufacturing problems, but I did note what I term to be a definition of your understanding of what a manufacturing plant is. Am I right in assuming you consider a manufacturing plant any establishment that has the machinery and tools equipped to do a job required of it, whether it be a service station out in the sticks, or whether it be a large automobile manufacturing plant in Detroit, Mich., or elsewhere?

Mr. ODLUM. Yes; from the standpoint of carrying, spreading work, and alleviating the distress that is going to come from a shortage of raw materials.

Mr. KIRKLAND. In my question, I want to place emphasis on this point, equipped to do the job required by the Government of the United States?

Mr. ODLUM. That is right.

Mr. KIRKLAND. That is all the questions of counsel.

The CHAIRMAN. Thank you very much, Mr. Odlum. We appreciate your contribution.

Mr. ODLUM. Thank you very much. [Applause.]

The CHAIRMAN. Mr. Cargile. We will ask our guests to refrain from applause, please, either expressing approval or disapproval.

STATEMENT OF L. C. CARGILE—Resumed

The CHAIRMAN. Mr. Cargile, I believe you would like to make a statement. I understand you would like to make a statement?

Mr. CARGILE. Yes, Mr. Chairman; I would appreciate the opportunity of making a brief statement to the committee, which is brought about largely by reason of my failure to answer Mr. Halleck's question of yesterday, in which he asked about our point No. 1, and I presume that from that would follow a discussion of the eight points which we had proposed for immediate alleviation.

I went on to say that we had divided our program into two parts, one of which we have developed into the eight points because we knew we had a deadline to meet on January 15, when we anticipated that the rationing order would be executed, and everything would be finalized. Then, we knew that there would be many other matters that were distressing to dealers concerning which we would need your advice and support and help. And so, having been in negotiations with some of the agencies, namely, O. P. A. and O. P. M., and having been requested by them to treat that as a matter of confidence, I have made the request to which you so kindly acceded. I am now relieved from that request, and am willing to answer any questions, and would like, in particular, to note a few remarks concerning them.

I stated that there was evidence of an intent of purpose on the part of these agencies to alleviate any of these eight points. Some of the alleviation was described by Mr. Henderson this morning, and there are one or two matters, one in particular, that I would like to bring to your attention concerning which I have an authority from O. P. A. to make a correction. That has to do with the 1 percent per month carrying charge which Mr. Henderson inadvertently described as applying to those cars carried over into 1943. That was not in line with the discussion which had developed prior to that, and I talked to Mr. Henderson, Mr. Knudsen, and Mr. McCormick, and secured approval to make the statement that it was intended that that would apply to all cars carried in 1942, beginning February 1, next.

I would like to say, in justification for my statement, that there was an intent or purpose to alleviate these eight points; that I had just left the chief of the administration of the Motor Section of O. P. A., and he bid me farewell with the statement that all eight of those points, except the last one—you have secured all eight of those points except the last one, and that being a minor point, having to do with the sale of convertible limousines and convertible sedans, and so on, and we did not feel that there was need to press it.

The other eight points, we thought at that time, would be completely covered to the satisfaction of the dealers.

We heard Mr. Henderson make his statement this morning; and if we may turn to those eight points, we will find that there is still a considerable distinction between what might be described as having secured complete alleviation on all eight of those points, and the alleviation that was described by Mr. Henderson. The first he granted to be made effective February 1. That was for the delivery of all bona fide orders. And I want to remind you that we requested that not only for our own equities but principally for the equity of our customers. Of course, the dealer is, at present, ahead, so long as he is carrying that down payment and does not have to make deliveries.

You heard the discussion of the price ceiling concerning which the dealers will interpose no objection.

You heard the discussion concerning the ceiling on used cars, and I presume that will be acceptable to the body of dealers.

We did not receive any statement concerning No. 4—I beg your pardon, I thought we were at No. 5. No. 4, "That all automobiles and trucks produced, except those designed especially for military service," we have pledged that that will be observed.

However, I would like to say that there have been many references in our negotiations to the phrase, "normal business." Normal business means that the firm should not lose business.

If these cars are unloaded on dealers and the rationing order indicates that they cannot be moved out quickly, and that they will be at a great loss in carrying them, then they will be sold to the Government and to the other bargain buyers, such as the National Fleet Buyers, at great loss to the dealers. So, it may be in that particular phase we have no relief granted as yet.

No. 5 was not mentioned, as I recall it.

Mr. HALLECK. If I might intervene right there—no; that is right.

Mr. CARGILE. No. 6, "That the Government shall pay for the cost of financing, insurance, and storage on all cars and trucks carried after January 1, 1942." This was handled by the agreement as proposed by Mr. Henderson, that 1 percent per month would be added to the selling price so that the dealer may collect that 1 percent per month, which will not cover the cost of handling, in most cases; provided he is able to bargain with his customer and sell it and collect it from his customer, handling the used car in a trade-in, and handling the paper, and financing this deal. That is still a moot question as to whether or not the dealer may recover, and it depends largely upon the rationing order which may be issued.

We had understood that the rationing order would be far more liberal than that concerning tires, but you heard Mr. Henderson say this morning it would follow the line of tires, and if it is to follow the line of tires, as indicated by the January order, then that will not give a quick enough liquidation of automobiles to furnish a satisfactory answer to that question.

Mr. HALLECK. If I might intervene?

Mr. CARGILE. Yes; please.

Mr. HALLECK. That same thought had occurred to me. I couldn't see much prospect for moving very many of these automobiles, having regard for the classification of persons, individuals, who generally buy these passenger cars, and who might come under the preference order.

Mr. CARGILE. That is true, Mr. Halleck. We had reason to believe that the rationing order would be far more liberal, and that practically all of the early model cars now on hand would move out within the next few weeks.

Mr. HALLECK. Isn't it true that in the tire order, except for doctors and physicians, nurses, something of that sort, that there are no classifications that would involve passenger cars?

Mr. CARGILE. Very, very restricted, quite restricted. Your statement in general is true.

Concerning the 1 percent, I would like to give you the history of how that was arrived at. I attended a meeting at which a number of the group were present, at which it was proposed that these cars, yet to be shipped, should be shipped to the dealers who would serve only as warehousemen, and that their primary function as vendors or merchants would be by-passed; they would be asked merely to warehouse the car.

A dealer might warehouse a hundred cars and then at some date be requested to deliver them to someone else who had so¹ them.

That was objected to so vigorously it was finally thrown out, and it was definitely understood that any cars the dealer bought and warehoused, he would let out.

In connection with that plan it was proposed to pay \$3 a month as a warehousing charge.

So, that is the history behind it, and the changes that have developed by reason of these negotiations.

I would like to reiterate that we have obtained a measure of redress by reason of your help. I would like to say again that we know that because the rationing order has been postponed until February 2, that it is impossible for us to apply directly and specifically what may be the results of a rationing order, and of this whole plan.

But, we know that either before February 2, if there be more definite information given as to what it may be, or after February 2, we will again become supplicants to you, asking for assistance on another short-range program, and probably on a long-range program, because at the very best, thousands, tens of thousands, many, many dealers are going to save disaster and some may stretch through.

But, we are going to need your help in matters of moratoria, leases, mortgages, and all things which face our business.

And, in closing, I might remind you that I got a great inspiration from Mr. Odium's mention of 1 percent, when he figured that 1 percent on the \$15,000,000,000 all left—which it is rumored will be granted to the automobile manufacturers who have been kept in business only by reason of the survival of their dealers—if divided on an average among the dealers, would mean about \$35,000.

And, if apportioned out—this is merely an aside, certainly—but if it could be apportioned out to all the dealers, according to their sales, it would guarantee their survival until the end.

The CHAIRMAN. Mr. Cargile, the committee hopes that you have been satisfied with the hearing that has been granted the automobile dealers, and I will state that I have been here seven terms, serving my seventh term in Congress, and I have attended lots of committee hearings, and I have never known an organization to receive such genuine, sympathetic consideration in my life from so many Members of Congress, and I think that the organization, the organization that you are the head of, the president, the National Association of Automobile Dealers, should be very highly pleased at the way the Members of Congress have responded to your request to give serious, careful, and sympathetic consideration to your views.

I want to express my appreciation to you and your executive committee and the other officers, and your dealers from all over the State, for the fine and able and valuable assistance that you have rendered this committee, and if we can be of further help to you in the future, I believe I am expressing the will and the wishes of the committee, it will be a pleasure for us to work with you.

Mr. CARGILE. Thank you. As you know, all of that is reciprocated by the dealers.

Mr. HALLECK. Mr. Chairman, if I might ask this question.

The CHAIRMAN. Certainly, Mr. Halleck.

Mr. HALLECK. You did not refer to point 7 here.

Mr. CARGILE. I am sorry.

Mr. HALLECK. Which has to do with some action by the Government to relieve dealers of the cars that are frozen. You recall that is one of the things I talked to Mr. Henderson about, and it would seem that that is a rather important consideration, particularly if this rationing doesn't work out quite as quickly as some of them think it might.

Mr. CARGILE. That is the most crucial of them all. Dealers, as a whole, want to stay in business. They have their chins up and want to fight and see this thing through and still be in business, but they hesitate to buy these 170,000 cars now coming off the line unless there is some guaranty that if, at the end, they cannot have some relief of some sort.

But, they are willing to take a chance and continue and render service to their customers if there be some sort of a warranty that in the end relief be furnished.

Mr. HALLECK. I might reiterate what the chairman has suggested. We feel now, all of us feel now as when we started. We know we are in a war. We are patriots and we want to make every sacrifice that is necessary, but, at the same time, we do not want to make unnecessary sacrifices, and so far as we are concerned, I am sure that you can depend upon the continuing cooperation of those of us who have tried to work with you in this matter.

Mr. CARGILE. Thank you, Mr. Halleck.

The CHAIRMAN. Thank you very kindly, Mr. Cargile. By the way, I think you may notify Mr. Castles and these other gentlemen that it will be unnecessary for them to be here Friday. I have talked to members of the committee and they believe that they have obtained from other witnesses all the information they would like to have from them.

It is possible we will want some statistical information. If so, we will request it and ask you to furnish it by correspondence. We have another program for Friday we think we can use.

Tomorrow we will hear the tire dealers.

Without objection, the committee will stand recessed until tomorrow at 10 a. m.

(Whereupon at 4:35 o'clock p. m. an adjournment was taken to 10 a. m. of the following day, being Thursday, January 15, 1942.)

SMALL BUSINESS IN THE UNITED STATES

THURSDAY, JANUARY 15, 1942

SELECT COMMITTEE TO CONDUCT A STUDY AND
INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM
IN ITS RELATION TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.

The select committee met, pursuant to adjournment, in the Caucus Room, Old House of Representatives Office Building, at 10 a. m., Hon. Wright Patman (Texas), chairman, presiding.

Present: Representatives Patman (Texas), chairman, Bulwinkle (North Carolina), Kelly (Illinois), Fitzgerald (Connecticut), Halleck (Indiana), Hall (New York), and Plooser (Missouri).

Mr. Ira Bird Kirkland, Jr., counsel for the committee.

The CHAIRMAN. Mr. Cargile wanted to make a statement about the automobile situation. You may go ahead now.

STATEMENT OF L. CLARE CARGILE--Resumed

Mr. CARGILE. Members of the committee, I apologize for appearing here so often, and I hope I do not bore you.

I wish to make a statement in reference to yesterday's testimony and a later release from the Office of the Price Administration.

In the middle of the page on page 74 of the transcript of the proceedings of your committee yesterday, you will see the following words by Mr. Henderson:

Now, there are one or two other items relating to tires and tubes and to the understanding that the cars will not be released unless the specific release is given by the rationing authority, but, in the main, they are the elements of the plan for the dealers.

Specific release having to do with the car for sale is developed in the later release, so that the only evidence given concerning tires and tubes was that which I have quoted. There are one or two other items relating to tires and tubes.

We were shocked beyond expression when later in the afternoon we received a release dated No. P. M. 2180, section number 2, reading as follows:

The dealer will make available to Office of Price Administrator at any time the tires and tubes on the stored car provided the dealers will be compensated to the extent of the wholesale price.

Now, that is the first intimation that it had been anticipated that these cars which we agreed to store for a year, which the individual

dealer may not agree to store for the year, which may be at his option but which he will be asked to store for a year for the benefit of the Government that the dealer might then be requested to take off the tires and tubes and return them to Office of Price Administration. That brings up very many hazardous things. In order to keep these cars in condition, it is necessary that they be moved every 30 or 60 days, and in the ordinary trafficking of the business, you will recognize there will be a continual movement of cars. With the tires off the cars, it is very difficult to get a roller jack under it. In the case of fire, these cars cannot be removed and a total loss would result.

Mr. Henderson referred to Mr. Knudsen's remark concerning cars which had been stored. I am familiar with that situation because in 1924, I bought a number of cars which had been stored by Mr. Knudsen's company in the Alamo Warehouse in New Orleans, and because they had not been moved, the condition of them was very bad and we suffered a loss upon them.

We wish to bring that to the attention of this committee, because we can assure that at no time was the dealer association, or any dealer advised that they might expect to have to buy these cars and then have to take the tires off and send them back to the factory leaving them there on these low wheels which is a part of the modern automobile.

The CHAIRMAN. Thank you, Mr. Cargile.

Mr. HALLECK. Do you know of any shortage, in tires, that exists at the present time or that you could say in reasonable contemplation would exist during the year which would require that the tires be removed from those cars?

Mr. CARGILE. None whatsoever.

Mr. KELLY. That was an order issued last night?

Mr. CARGILE. Yes, sir; it is dated January 15, and we received a copy about 4 or 5 o'clock.

Mr. FITZGERALD. Mr. Henderson did not refer to that in his testimony?

Mr. CARGILE. His only reference is "there are one or two other items relating to tires and tubes." This is a considerable item to us.

The CHAIRMAN. Thank you, Mr. Cargile.

The CHAIRMAN. Mr. Treadway of Massachusetts.

STATEMENT OF CONGRESSMAN ALLEN T. TREADWAY, FIRST MASSACHUSETTS DISTRICT

Mr. TREADWAY. Mr. Chairman, the ban on the sale of automobiles, tires, and tubes, has caused the same serious situation in my district that it has elsewhere. I want to invite the committee's attention to a unique case which has come to my attention and one which I doubt has been given any consideration by the authorities in arriving at a preference list. It is the case of a traveling blacksmith whose equipment is carried in a truck and who goes from farm to farm to shoe the horses of farmers. The old-time blacksmith shop is a thing of the past and the modern "smithy" carries his forge in a truck. The necessity of providing him with tires is so apparent as to require no elaboration on my part. I present the following letter from Mr. Edwin A. Graves, traveling blacksmith, of Whately, Mass.:

WHAATELY, MASS., January 12, 1942.

Congressman ALLEN T. TREADWAY,
Washington, D. C.

DEAR MR. TREADWAY: The business I am in is 100 percent farm work, shoeing farm horses and repairing farm tools and wagons. Yet there is absolutely no chance for me or other travelling blacksmiths to get tires for our trucks used exclusively in this business. At present I have four tires that are badly in need of retreading to save them for another year's use, yet I can get no promise of having this work done for at least a month. Then I would be in a predicament, tires too far gone to retread and no possible rating under the present set-up to get any new tires. Therefore, I will be out of business and the farmers will be out of a horseshoer and probably many more throughout the country will have to give up farm horseshoeing if we don't have a rating to get tires.

Farmers have a rating to get tires and I believe they will tell you if they cannot get their horses shod they will have to give up farming to a great extent and won't need any tires.

I and many other traveling horseshoers will appreciate any action you may be able to get from the Tire Rationing Board in Washington.

Yours very truly,

EDWIN A. GRAVES.

The CHAIRMAN. I have a telegram here addressed to Mr. Ed Gossett.
(The telegram referred to is as follows:)

VERNON, TEX., January 15, 1942.

Hon. Ed Gossett,

House of Representatives, Washington, D. C.

Wright Putman hearing for small businessmen meeting to be held in Washington Thursday, January 15, 10 a. m. Would appreciate you attending on behalf of the tire dealers of this section of the State and advising us outcome. Ed our condition here is much more serious than you can imagine. Office of Production Management ruling that tire dealers cannot move their stock and this hurts. Tires will become dead before they could be moved. In some localities dealers have hundreds and thousands dollars invested in this merchandise and under present set-up will not sell a tire or tube in 6 months.

Recently tire dealers had to pay a floor tax on all tires and tubes they had on hand and since then very few tires have been sold. This alone has made a hardship on them because of paying out this additional money and none coming in, this being tied up in tires they cannot sell. So many of us and other dealers are not in position to be responsible for the stocks, and some stocks are very large. These conditions have already made them come into the picture, in other words Ed, lots of small tire dealers will soon go out of business and the larger ones can stand it for only a matter of time.

ROBERT L. MORR, Jr.,
LEON WATSON,
BOB HOFFMAN,
W. D. HOFFMAN.

The CHAIRMAN. This morning we are going to consider the plight of the independent tire dealers. The committee and the other Members of Congress have received many telegrams and letters on this subject which will be listed for the record.

(Telegrams and letters received from the following:)

Jack Martin, Dallas, Tex.
C. S. Allison, Nashville, Tenn.
Milton Ballot, East Hartford, Conn.
George Blacca, Stamford, Conn.
L. W. Bohon, Fort Scott, Kans.
Morton Borod, Pawtucket, R. I.
Glenn D. Brown, Austin, Minn.
Jack Callaway, Denver, Colo.
J. A. Caporale, Springfield, Mass.
Francis J. Carroll, Saratoga Springs,
N. Y.
Jacob Cherner, Bessemer, Ala.

W. W. Collo, Nashville, Tenn.
Tony Gossolin, Eureka, Calif.
E. S. Dalton, Houston, Tex.
W. H. Gabol, Fort Smith, Ark.
Garden Tire Co., Philadelphia, Pa.
A. B. Gardner, Baltimore, Md.
H. S. Gillen, Long Beach, Calif.
A. H. Hammel, Miami, Fla.
E. G. Harvey, Denver, Colo.
F. L. Hawkins, Seattle, Wash.
Harry Holman, Chelsea, Mass.
Paul W. Jacobs, Richmond, Va.

George Jakabein, Reading, Pa.
 Kotzen Tire Co., New York, N. Y.
 Frank Knight, Austin, Tex.
 Sam E. Levy, Atlanta, Ga.
 Whitney Malze, Columbus, Ohio
 James F. McCoy, Albany, N. Y.
 Dale McDougall, Long Beach, Calif.
 Fred McMahon, Springfield, Mo.
 A. L. Morton, Gloucester, Mass.
 Ronda Tire Store, Grand Rapids, Mich.
 Don B. Schafer, Tucson, Ariz.
 Edgar M. Shaner, Lynchburg, Va.
 Frank Shepherd, Kansas City, Mo.
 Erle B. Smith, Wilmington, Calif.

Glenn F. Smith, Fresno, Calif.
 O. R. Smith, Joplin, Mo.
 A. G. Swan, Dover, N. J.
 Carl F. Vacca, Westerly, R. I.
 J. N. Vrazel, Yoakum, Tex.
 S. Carl Whistler, Chicago, Ill.
 V. I. Whitney, Montesano, Wash.
 Walters and Fisher, Lancaster, Pa.
 Whittenton Tire Shop, Taunton, Mass.
 H. E. Williams, Birmingham, Ala.
 Roy G. Belville, Burlington, Vt.
 Letter from Howard M. Gringteh, ad-
 dressed to Congressman John C.
 Kunkel.

The CHAIRMAN. Mr. Burger, are you ready to proceed? Will you give us an idea about the program that you would like to have adopted?

STATEMENT OF GEORGE J. BURGER, OF BURGER TIRE CONSULTANT SERVICE, NEW YORK, N. Y.

Mr. BURGER. I believe these gentlemen testifying will offer recommendations to the committee for its consideration.

The CHAIRMAN. Go right ahead, Mr. Burger. Give your full name, business, and address to the reporter.

Mr. BURGER. My name is George J. Burger, 250 West Fifty-seventh Street, New York, N. Y.

My background in this tire industry is as follows:

From March 1909 until August 1935, I was engaged in operating my own retail tire business; during the year 1921 I served as president of the Greater New York Tire Dealers' Association; from 1922 to 1925, inclusive, I served as president of the National Tire Dealers' Association; from August 1935 until January 3, 1941, I served as secretary-general manager of the National Association of Independent Tire Dealers. While in the employ of this group I made a regular annual tour of all of the markets of this Nation, visiting with independent tire retailers, wholesalers, and recappers located in those various places; from January 3, 1941, to the present I have operated my own consultant service which, at present, is being supported by independent tire retailers, wholesalers, retreaders, and recappers located in almost every State of this Nation. Only last fall, while operating my own service, I made another national tour covering over 20 major markets and conferring with independents located therein. Last summer I wrote, for the benefit of the Senate Special Small Business Committee, the over-all report on the problems confronting the small businessman in the tire industry, this report being later embodied in that committee's report on conditions in the industry which was published by the committee during August of 1941.

I am presently concerned with the effect of rubber rationing on the independent tire dealers of this Nation, and on our national economy as a whole.

To obtain some ideas as to the dislocations and misery that can flow from the restriction of tire sales it is necessary only to study the following picture: There are at present between 15,000 and 25,000 independent tire retailers, wholesalers, retreaders, and cappers operating

today; according to the latest Department of Commerce census of business (1939) there are in the neighborhood of 15,000 independent retailers alone operating in the field. According to that same source those 15,000 retailers operated about 18,000 retail outlets, sold about \$523,000,000 worth of tires, batteries, and accessories, and employed in the neighborhood of 57,000 people, paying them about \$70,000,000 in wages and salaries.

It was reported by the Department of Commerce's survey that dealers' stocks on October 1, 1941, approximated 3,000,000 tires which were being held by the dealers and in the distributors' stocks of all classes, including the dealers, 6,500,000 tires on October 1.

A quick telephone survey of the New York City area alone revealed the following statistics: Dealer A employs between 7 and 9 people, his approximate average annual overhead is \$55,000; he presently is carrying an inventory worth about \$100,000; his average annual sales approximate \$400,000; dealer B employs about 14 people; his approximate fixed investment totals about \$35,000; his average annual overhead runs about \$24,000; his present inventory is valued at about \$12,000; his normal average annual sales approximate \$120,000; and dealer C employs about 10 people, most of whom have been with him for 18 years; he has a fixed investment of about \$40,000; his average annual overhead totals about \$50,000; his present inventory is valued at about \$35,000; and his average annual sales run about \$175,000.

From the Trimble Oil Co., of Indianapolis, I have a letter dated January 12 from that corporation addressed to me in which Mr. Trimble, the president, states:

I regret exceedingly that due to appointments made in advance and other obligations which I have contracted, it will be impossible for me to assist you in presenting our case to the committee. The chaotic conditions in our little business at this time scarcely permit of one's being away from responsibility for any length of time.

I am aware, too, that we are almost in the position of conscripted for this cause wherein the Government has given us an opportunity to endeavor to maintain, through the Small Business Committee and others, our very existence.

Our position at the present moment is a very insecure one inasmuch as we are holding a fairly large inventory of tires—not many tubes—and are being pressed by our supplier for the balance due on the merchandise, a considerable portion of which came in within the last 30 days during which we were able to purchase new tires. Our suppliers' representatives were in our office only last Thursday making representations to us as to our delinquency and the necessity of making some arrangements to take care of the indebtedness. They were fairly lenient as to amounts, but we understand their position and the necessity for liquidating the account within a reasonable time.

We have been in business here in Indianapolis for 6 years and during the last 4 years we have been engaged in the tire business, in which we have invested nearly \$75,000.

Our volume of sales for the year in tires and tubes will total approximately \$100,000. In addition to this we sell gasoline, oils, accessories, caps, and used tires.

We employ 35 to 40 people regularly and endeavor to maintain them all through the entire year. Of this number only 5 at present are single, the balance having dependent families.

You will readily see that with \$100,000 worth of tire and tube sales reduced to, say 20 percent, Government estimate of future allocation of tires, profits on a 25-percent gross basis to the extent of \$20,000 would be eliminated. On account of heavy overhead, it is imperative that a large volume of business be sustained throughout.

We operated at a loss until midsummer of this year when we commenced to make some profit due to an increased demand for tires, and the resultant loss-

ening of competition. We were able through judicious ordering to maintain a fair stock of all sizes of tires to meet all demands.

In order to dispose of our obligations, I would suggest to you and the committee that the situation be studied carefully and as promptly as possible release from the sales ban certain tire sizes, et cetera, that are not essential to Government use, such merchandise to be distributed to the public, but only on condition that a mounted operating tire be surrendered with each tire delivered.

Definite release is needed as to tubes inasmuch as much of the rubber now in operation and later, though recapped and repaired, tires will be useless without an adjustment of the present basis.

If the Government can use the present stocks of tires in dealers' hands at a future date, would not relief in the form of financing or purchasing the stock solve the difficulty, if such an arrangement could be devised?

We would urge you to plead with the Government not to add reclaimed or other ingredient to cap stock for a 7,500-mile cap. This is not conservation of rubber in our opinion and would rather waste in the poor material, et cetera, prematurely falling. Also there is the safety hazard which should be definitely taken into account in this matter. Also there is the feature that inferior capping work and material will damage the reputable cappers' business for the future. Frankly, we can see no argument in favor of this move, and we want to say that we are not prejudiced in the matter. Quality cappers, country-wide, recognize the seriousness of the move.

Multiply these by 15,000 and you will see the magnitude of the harm that is threatened small business by this rationing procedure.

This harm, however, to a great extent can be staved off if during this emergency independent tire dealers and tire rebuilders are allowed exclusive run in the retail tire field. By that I mean that the independent be the only party permitted to deliver tires and tubes, retreads and recaps to the ultimate consumer.

I say this not only because I wish to see small business preserved in this industry but also because I believe the independent is best fitted to serve all classes of tire consumers and thereby to help this Nation over the trying period to come. The following are my reasons for making this statement:

(1) The independent has been, and is, in more constant and far closer contact with the ultimate user of tires and tubes because of the services he is called on to make, than has any other retail outlet. Because of this constant contact and close association he has come to a better realization of the tire problems of drivers, how to care for and adjust tires. Because of this fact also he is better posted to advise consumers as to the proper sizes and types of tires to use.

(2) He can always be relied upon by consumers because he personally must bear the brunt, take the blame, for anything that is wrong.

(3) He, in most cases, has right at hand all the necessary equipment to sell and service that particular type of trade in which he is interested.

(4) He, as a tire rebuilder, having had far longer and far more extensive experience in the field of retreading and recapping than any other factor in that field, is far more able to care for the needs of the tire consuming public.

I believe the continued existence of these efficient, experienced, and dependable independent tire men will prove of far greater value to our Nation than would their extinction.

The second thing I believe the Government, through the O. P. A., should do to alleviate the plight that has been thrust on the independent merchant in the tire field, would be to order taken every 30 or 60 days an inventory of all the tires and tubes held by independents, size by size, and type by type. By this means O. P. A. could determine just what types and sizes of tires were in demand by eligible tire purchasers, and what sizes and types were not in demand. On receipt of this information O. P. A. could arrange to permit the gradual release of all the tires that are not in demand. Certainly, if there is no demand for these casings, it would do the Nation no good for them to rot on dealers' shelves.

For instance, I do not believe that under the present set-up there will be much call for sizes and types of tires made to fit the rims of cars made before the year 1936. Such casings don't fit the rims of cars presently used by the "eligible" classes. I believe these types and sizes of casings should be released for sale to that class of consumer who can and will use them.

The same condition I am certain applies to certain types of "de luxe" tires and "de luxe" tubes and white-wall tires which are not normally in great demand by them who can purchase casings now. Why then prevent their sale and allow them to waste in inventories? Rubber is too precious for that.

In the third place I urge that the Government extend to dealers whose stocks are under rigid rationing some sort of financial assistance to tide them over this trying period. Such assistance might take the form of long-term low-cost loans, made on the basis of inventories on hand and the worth of each establishment as a going, expanding concern, securable by dealers who can prove themselves to be alert, capable and honest, from either the Reconstruction Finance Corporation or some similar lending agency.

I do not believe this last is too much to ask because each of these loans would most certainly be backed by very valuable collateral—rubber tires and tubes—that might at any stage of the game be turned into dollars and cents practically overnight.

In this connection I believe it is important, too, to note that the present rubber shortage is not destined to last forever. Sooner or later we are again to enjoy normal rubber supplies. Then it should be possible for dealers to resume normal operations and to clear up the advances that have been made to them.

In the fourth place, I urge that the Government take action designed to permit dealers some relief in the matter of meeting contracts made previous to December 11, leases in effect previous to that time, and in the matter of meeting payments on bills, taxes, Federal and State, interest on mortgage secured from the H. O. L. C. and the F. H. A.

In the fifth place, I urge that the Government continue its investigations into the possibilities of securing its supplies of crude rubber, both synthetic and natural, from areas nearer to our own country, areas that will offer us more security in this matter.

Prompt and effective action by your committee along the lines of the 5-point program I have just outlined, I am certain, will go far toward solving the problem occasioned small independent businessmen of the tire industry by the present attacks on our sources of rubber supply.

However, before concluding this brief, I wish to stress certain facts. These are as follows:

Even in a program such as I have outlined it will not mean that every tire dealer who is now operating will be able to survive the impact of present conditions, and it will not mean that every dealer who, by virtue of this program and his individual initiative, survives this crisis will not have to make extreme sacrifices, so far as his personal affairs and the affairs of his business are concerned. It would be as unworthy as it would be unpatriotic for us to ask exemption from carrying our part of the burden. It isn't freedom from sacrifice that the independent dealer asks, rather it is freedom from the danger of total economic extinction.

And in conclusion let me call your attention to one last fact. That is this: It is universally acknowledged that small business is one of the cornerstones of the American way of life as we have known it to now. Remove it, or permit it to be removed from the scene and you are endangering that way of life.

We are now engaged in fighting to the death, making enormous sacrifices, spending 88 billions of dollars and lending billions to our Allies, to preserve our cherished democracy. Wouldn't it then be supreme foolishness, utter madness, for us while doing all this to ward off an external aggressor, to meanwhile allow the internal foundations of our freedom to rot away for want of proper care? I know your answer to these questions without your making them.

I thank you.

The CHAIRMAN. Would the members like to ask any questions?

Mr. KELLY. Mr. Burger, I don't know whether this is an improper question or not. If it is, you do not have to answer it. Have you any idea as to what the supply of crude rubber is at the present time in the United States?

Mr. BURGER. Congressman Kelly, I can only say what I have read in the papers. It is impossible to find out any actual information, but I believe the committee could secure that through the Rubber Reserves Corporation.

Mr. KELLY. You do get so many statements from various and different individuals on the rubber production and the rubber plants in this country?

Mr. BURGER. Congressman Kelly, I believe that the Rubber Reserves has the actual facts as to the crude rubber stocks and they can be obtained through the Rubber Reserves Corporation.

The CHAIRMAN. Thank you very kindly, sir. We will now have the next witness, Mr. Girard of the R. A. McDonough Co., Newark, N. J.

All right, Mr. Girard, you may proceed.

**STATEMENT OF J. L. GIRARD, MANAGER, R. A. McDONOUGH & CO.,
NEWARK, N. J.**

Mr. GIRARD. I have been employed by R. A. McDonough & Co. for 13 years. My firm has been selling and servicing passenger and truck tires and tubes for 30 years. At the close of 1941, its fixed investment consisting of land, building, autos, trucks, shop and service machinery, furniture and fixtures, is valued at \$85,000. We

maintain a warehouse and service station, owned outright, and lease three other tire service stations in surrounding towns. The company sales have consistently from 1935 to 1940, averaged a \$300,000 yearly volume, and in 1941, sales exceeded \$300,000, 98 percent of which were derived from the sales of tires, tubes, and service only.

The firm maintains 24 regular employees at all times. Nine of the present employees have been with us from 8 to 17 years. The employees are responsible for the support of at least 50 others which constitute their individual families.

The recent order of O. P. M. as of December 11, 1941, restricting the sale of tires and tubes to January 5, 1942, deprived the firm for this period of its normal sales possibilities, limiting its sales to minor products from which the profit attained is not enough to cover the overhead costs without making drastic cuts in personnel and expenses of operation, and plans for this reduction are now being made because of curtailed business.

Purchases in accordance with credit terms of our manufacturer are now due and overdue, and because we are at present unable to turn this merchandise over, cannot meet all its credit obligations as we have in the past to preserve the A-1 credit reputation which we have enjoyed for many years with our suppliers.

The recent order of stopping the sale of new automobiles and trucks has again opened up another situation. Many of these dealers are indebted to us, and under this curtailment program, are holding up payments that are due us on all types of merchandise which they were sold. Some of the weaker ones already have gone into bankruptcy and will now cause further losses for the tire dealers.

October 31, the firm paid in cash to the Treasury the difference between the old and new Federal excise taxes which was expected to be passed on to the consumer to reimburse us for the outlay. We are unable to collect this as promptly as expected under the rationing program and it may take months more unless relief of some sort is forthcoming.

March 15, we shall be expected to pay our share of income taxes on profits for the year of 1941. If we cannot liquidate some portion of our inventory we shall be forced to request extensions until we are in a position to pay same, or pay to the Treasury its value in tires and tubes.

Detail reports of sales transfers priorities, and time required in filling out inspection certificates O. P. A. (Form R-1 and R-2) as well as other reports which may be in the making, will prevent our saving on any office and bookkeeping help even though sales will be greatly reduced.

For the purpose of assisting the defense program in its present rubber problem and helping dealers hard hit by this restriction we would like to recommend for your consideration that a Government board be set up to find out first the types and tire sizes that the Army, Navy, and defense program shall require for the duration of and successful termination of war against Hitler and his cronies. Then to advise tire dealers of these types and sizes, and if their inventory shall consist of any of these sizes, request or force them to either sell to the Government reserve board, set up principally for the purchase of these tires, and to pay the dealers a reasonable profit on same.

Require the Army and Navy to survey equipment and to suggest to the board any other types of tires and tubes which may be used to advantage on those vehicles operated solely within our hemisphere not ordinarily requiring the special type tire and tube now being used; in other words, we feel there are many vehicles which will never see service out of this country, and, therefore, the special type tire and tube now being used could be reserved and some other regular type answering the same purpose which the dealer now has in his inventory, substituted and made accessible to the Government under the above plan. This would no doubt give our Government a larger and better reserve supply of tires already manufactured, leaving the crude rubber to be made solely for the special type tires or products which they may require in the future.

We know that in our own stock we have at least 100 special type tires, such as "sure-grip" and "studded sure-grip" which we have noticed being used on Army equipment, and many other tires which we daresay could be satisfactorily used as substitutes on these vehicles.

In addition, we believe that there are many buffed and so-called factory seconds in manufacturers' and dealers' stocks which are 100 percent in every detail but because of some slight tread imperfection or change in manufacturers' design—which does not impair in any respect the serviceability and safety of the tire—could also be obtained by the Government for a reserve stock. Under this plan, we believe that thousands of additional tires would be available to our Government immediately.

Independent tire dealers and rebuilders, as a whole, without a doubt can render a higher degree of service to the Government and to the Nation at large during this emergency because they are familiar with the needs and necessities of the operation of rolling vehicles requiring the use of tires. Tire dealers throughout the Nation for the past 15 years have been recommending the type of equipment that should be used by the operator for the lowest-cost-per-mile and trouble-free maintenance of his unit. They have changed thousands of trucks from the solid-type tire to the pneumatic, increasing the speed and service facilities of old equipment for some years to come. They have recommended the use of oversized tires and special types to fit the operator's needs, and believe, because of this experience, everything possible should be done to keep him in business for the service that he can render during this emergency in the transportation field.

Over 80 days have elapsed since the order was put into effect, and to the present so far as we can find out either from the Government or from our suppliers no definite plan has been devised for either the closing of our business without too much hardship or to continue to render tire service which we believe we are fully capable of doing to keep vital transportation rolling under rationing conditions. If too many tire dealers give up the struggle for an existence during this emergency, it may leave the industry with a shortage of tire-service facilities so important to those who have always relied on the dealer for his able assistance.

We urge you to secure for us the answers to the dealer problems before they use up their assets in current expenses, so that if they

are to be forced out of business they may do so without effecting losses for many others who have been dependent on them.

We believe the Government should sanction at once a moratorium on the payment of dealer debts to preserve the credit standing of those who have for years been considered good credit risks. We certainly do not want to lose our reputation particularly in this respect because we feel that when it is all over and when we can continue normal business again, the reputation we enjoyed in the past will be preserved in future credit dealings.

To provide immediately, a financial agency of the Government where the tire dealer may apply at once for a low-cost, long-term loan against his inventory as collateral, to preserve his credit standing with his suppliers.

To provide Government action at once, to relieve the dealer of legal suits arising out of cancellation of present leases being broken occasioned by existing conditions.

The issuance of a permit by the Rationing Board to purchase new tires will in most cases give the applicant the desire to purchase only the highest quality tire his money can buy. He will be looking for the tire that will render him the most mileage regardless of its cost because he will fear that perhaps if application is made a second time, no tires will be available. In this case I believe the tire dealers will be holding numerous tires of so-called third and fourth line which consumers may not be interested in. If not liquidated or sold, they may stay on the shelves of dealers for a long time in which they would do no good for the motoring public. I believe that if this condition exists, these tires should be made available to other eligible classes such as those to whom a car is a necessity for transportation to, and from defense industries, or to salesmen whose livelihood depends greatly upon transportation by automobile.

To ease the rationing on many size tires for the older cars which are slow moving in normal times and under rationing plans, may never be sold to the eligible classes as set up at present.

For the past several years, the manufacturers have sold direct to many large national corporations, in some cases, paying the tire dealer a small commission for the handling and delivery of such tires. These sales prior to this practice were enjoyed by the local dealers and, because of the hardship which they are now undergoing, should again be placed in their hands if there are any tires at all to be sold, permitting them to make a just profit to preserve their business.

That if reclaimed rubber will be of necessity, an immediate canvass of households and industry should be solicited to secure scrap products for a reserve pile, such as was recently done on the aluminum collection.

To permit sale of the present stocks of safety type tubes which would be a great help in the protection of life and prevention of injury to those motorists obliged to use poor tires and which would allow him to get maximum mileage from present tires. The safety tube is designed to eliminate the dangers of blow-outs and tire failure. It creates a slow leak out of a blow-out and permits the operator of a car to bring it to a smooth stop without swerving from the road and causing serious accidents.

To survey ceiling prices on new tires, tubes, retreads, and used casings to see if they are just and profitable enough for the dealers to survive on and to freeze the costs to dealers from manufacturers on the same basis.

The rationing regulations permit at present that the inspector stations shall be allowed a fee of 50 cents for the dismounting, physical inspection, and remounting of the tire, but makes no provision whether that tire is a 6.00-16, 10.50-24, or even a larger size. No dealer in our country can make such an inspection as required on truck tires for this fee. Truck tires require experienced men, time, effort, and equipment and this fee is not adequate compensation for such service.

Gentlemen, if we tire dealers can be of any assistance in helping win this war we wish to do it.

The CHAIRMAN. Thank you, very kindly.

Now, before asking questions, I want to state that I have known Mr. Burger some 10 or 15 years and I know that he is a good, honest, conscientious leader in the tire industry; and anything that this committee can do to assist you gentlemen, I think the committee is ready to do it. We do not know exactly what we can do, but we are just as anxious as we can be to receive every suggestion and every proposal that will be of help and assistance in rendering aid to you gentlemen.

Major, would you like to ask some questions?

Mr. BULWINKLE. No.

Mr. HALLECK. I would like to ask a question or two.

I would like to suggest, first, Mr. Girard, that I think that you have made a splendid statement and I find myself in agreement with a number of suggestions you have made. Is this company of which you are the general manager in the tire business in New Jersey?

Mr. GIRARD. That is right, sir.

Mr. HALLECK. How many tires have you sold out of that place since these orders have been going out, or certificates of purchase?

Mr. GIRARD. Since the rationing board was set up, we have sold two tires in 8 days—since the rationing board's operation.

Mr. HALLECK. What was your average sales per day, in number of tires, prior to that time?

Mr. GIRARD. We would turn over at least 100 tires per day.

Mr. HALLECK. The way it is going now, how long would your stock last?

Mr. GIRARD. I think that our stock would last at least 30 years. We have a tremendous inventory.

Mr. HALLECK. How many tires do you have on hand?

Mr. GIRARD. We had on December 11—I think it was 6,800 passenger tires, and I think it was 1,800 truck tires, and an equal amount of tubes.

Mr. HALLECK. Now, is it your idea that you have some tires in your stock that could not reasonably be expected to be used by the Government, either for military purposes or for so-called essential civilian uses?

Mr. GIRARD. We have in our stock many types of tires that I think could be used very easily.

Mr. HALLECK. If I understood you correctly, you were suggesting that you have some tires that could not be put into these necessary or military uses, and if I got you correctly you were contending there is no real reason for forbidding you selling those tires?

Mr. GIRARD. That is correct, sir.

Mr. HALLECK. What, in a general way, are those tires; what sort of tires are they?

Mr. GIRARD. The sure-grip tire is the one I think all this Army equipment is on. You have noticed the big cleats on it. Of course, ordinary operators do not require that on smooth highways. The Army seems to think that is the ideal tire to get them out of dirt roads and places that they are obliged to go into. We happen to have those for farmers and those types of accounts that require the same particular type, and as I say, our stock does consist of those which will be no value to us later on.

Mr. HALLECK. But you still do not understand me. Do you have any tires in your stock that, in your view of it, the Army could not use or the military could not use?

Mr. GIRARD. Could not use?

Mr. HALLECK. Yes.

Mr. GIRARD. Very many, sir.

Mr. HALLECK. And further, are they of such a class that they would not be the sort of tires that would go out under these rationing orders?

Mr. GIRARD. Yes; this third and fourth line tire would not go out under this rationing program.

Mr. HALLECK. Except that classification, what other classification or type of tire, if any, do you have that in your opinion would not go out under the rationing order?

Mr. GIRARD. I would say we have motorcycle tires which are not very popular under the rationing program. I do not know who could use those except the cities if they have any motorcycle squads left.

Mr. HALLECK. Of course, the Army could use those for motorcycles.

Mr. GIRARD. That is why I would be glad to hand them over to the Army.

Mr. HALLECK. You were here yesterday?

Mr. GIRARD. Yes; I was in the morning.

Mr. HALLECK. In answer to a question by me, Mr. Henderson said this:

When a dealer is locked in for some reason or other, we will make the arrangement to see that he can clear up and get out. We are doing that with tires, and we are doing that in the situation that you just spoke of. In fact, we have a special group in our industry council that works on plans with the Treasury and Reconstruction Finance Corporation for that.

What indication have you observed as to the carrying out of such a program?

Mr. GIRARD. I haven't heard anything so far as to carrying out that program. Nothing has been suggested to us either by our manufacturer or the Government itself.

Mr. HALLECK. Is it something along that line that you think should be done by the Government?

Mr. GIRARD. I think so, before it is too late, I mean. Our expenses are running along, and unless we make drastic cuts, we cannot pay these men their full salary under this curtailed program. We have only sold two new tires in practically 8 days since the rationing board was set up. We will certainly have to take some

action to either turn the tires back to the Government or to the manufacturer to relieve our debts that we have incurred with our suppliers.

Mr. HALLECK. That is all.

The CHAIRMAN. Any questions, Mr. Kelly?

Mr. KELLY. I might ask a short question here.

Mr. Girard, you represent the national retail dealers in New Jersey?

Mr. GIRARD. New Jersey tire dealers only, not national.

Mr. KELLY. Do you know of any cases where there is hoarding of tires by large corporations, or large chain-store operators?

Mr. GIRARD. I know that the commercial operators are fairly well stocked. Now, whether you would classify that as hoarding or not, that is another question.

Mr. KELLY. Well, they are out of circulation as far as the retail stores are concerned?

Mr. GIRARD. That is correct.

Mr. KELLY. Now, when the retailer who has been the pioneer in the tire business long before the big operator got into existence, and at the present time the tires and stocks are on the floor, you pay the floor tax on those tires before they are sold; is that right?

Mr. GIRARD. That is correct, sir.

Mr. KELLY. That is all.

The CHAIRMAN. Mr. Hall?

Mr. HALL. What is the amount of investment that you have now in tires and tubes in stock?

Mr. GIRARD. In inventory?

Mr. HALL. Yes.

Mr. GIRARD. I would estimate it at around \$125,000 to \$150,000.

Mr. HALL. Do you finance that through a finance company or through borrowings at a bank?

Mr. GIRARD. No, sir; we have no financing agency helping us whatsoever.

Mr. HALL. Well, frankly, how long can you continue in business when you reduce your selling from 100 tires a day to 2 tires in 8 days?

Mr. GIRARD. I doubt, sir, if we can continue much more than a couple of months. We will have to liquidate our receivables and things like that, which will probably take a couple of years.

Mr. HALL. Too slim a diet to live on?

Mr. GIRARD. That is right.

The CHAIRMAN. Mr. Ploeser?

Mr. PLOESER. How long will these tires last, or remain usable for service, if they are held?

Mr. GIRARD. I would say from a year to 2 years, that a tire would be safe. After that, I doubt, due to checking and sulphur action, that you would not get as much service then as if the tire was used at the present time.

The CHAIRMAN. Thank you very kindly. We will now have the next witness, Mr. Tom Graham.

Give your name and business address.

**STATEMENT OF THOMAS GRAHAM, OF CAMPION-GRAHAM TIRE CO.,
CHICAGO, ILL.**

Mr. GRAHAM. Our business was established as a partnership 7 years ago. Our net worth is \$30,000. Our volume of business in the year 1941 was \$140,000. This represents tires and tubes only. Our entire income is from the sale of tires and tubes. We do not operate a retread plant.

Five persons derive a livelihood from our business.

Eighteen persons depend on our business for a livelihood.

Our inventory fluctuates between \$15,000 and \$25,000.

Our inventory at December 10 was \$19,995 in tires and tubes, priced at our cost.

Since December 10 our business has been at a standstill due to the freezing order now in effect.

We have maintained our organization complete and in so doing have depleted our working capital approximately \$1,900. Unless relief is forthcoming it will be impossible to maintain our organization for a period longer than 2 or 3 months without depleting our working capital to such an extent that we cannot remain in business.

During the period from December 10 to January 5, our stock was frozen. Since January 5, when the allocation system went into effect and up to and including January 13, a period of 8 days, we have sold but one tire valued at \$14.95 on a certificate issued by the Allocation Board.

As an illustration of how we are handicapped by the freeze order, let us consider just one customer. Let us take one concrete case.

During the month of August 1941, a common carrier operating approximately 180 pieces of equipment between points in the eastern seaboard and territories served by Chicago and St. Louis, purchased from our company 75 large truck tires, 5 1000/20, for a sum of approximately \$5,000. We invoiced these tires and passed title.

It is my understanding that we would segregate them from our regular stock, plainly tag each tire and make delivery as required within a period of 6 months. Our tires are warehoused in a public warehouse entirely apart from our place of business.

Payments for this stock was made in full by the delivery of six judgment notes. Four of these notes were discounted by us through our bank and the proceeds used to pay our supplier. The other two notes are held in our possession.

These tires are not our property. Title has passed to the customer. They have been paid for in full. The technicality of their not having been placed in a different location in the warehouse and a separate warehouse receipt not having been issued in the name of the customer has been construed by the Chicago office of the tire administrator as evidence that they come under the provisions of the freeze order and cannot be delivered.

Mr. BULWINKLE. Did you actually pass title?

Mr. GRAHAM. In Illinois, when you accept a judgment note, that is payment, and then we have the note to sue on unless we get our money.

Mr. BULWINKLE. Then your position is only as warehouseman for accommodation?

Mr. GRAHAM. That is correct. Nevertheless, I cannot deliver the tires.

Mr. BULWINKLE. Yes.

Mr. GRAHAM. The Washington office of the O. P. A. agrees with the Chicago office that these tires cannot be delivered. As a matter of fact, the customers' attorney was in Washington last week and spent 3 days here going to the various departments and came back with the decision that the tires are in my possession and that he cannot have them.

Mr. BULWINKLE. Who rendered the final decision in that?

Mr. GRAHAM. He spoke, among others, to Mr. Lewis.

Mr. BULWINKLE. Whose office is he in?

Mr. GRAHAM. O. P. A. This is a concrete case of the hardship that is being placed on the independent dealer. This same situation prevails with dealers all over the Nation.

Now, our company finds itself in the position of holding for an undetermined period \$5,000 worth of tires for this one customer for which we have not been paid in full.

The tires are sold. Title has passed. We have discounted \$3,500 of the notes. We hold \$1,500 in judgment notes. We are paying insurance. We are paying warehousing. We are forbidden to deliver the tires. We are not financially in a position to return the customers' money without suffering great hardship. Were we in the position to return the money we would then find ourselves with 75 additional tires on hand that we cannot sell.

Mr. BULWINKLE. Just a minute there. In a case like this, I think this committee should call it to the attention of the Government authority because every lawyer here that is on this committee knows that where the title actually passed, the money passed, or the equivalent of the money, and that the dealer was then, strictly speaking, a warehouseman. That is, those tires should be released and should be released immediately. Now, this same question came up at home, when I was down in North Carolina in November. A lady had bought in October some tires to give to her son as a Christmas present. They weren't going to release them. I said, "Release them." I said that I would take the responsibility myself. He was simply a warehouseman for accommodation.

Mr. GRAHAM. May I ask, in my case, can I take it upon myself, when I get back to Chicago, to give these customers these tires?

Mr. BULWINKLE. I believe, in your place, that I would wait and let this committee, through its counsel, make a decision.

Mr. KIRKLAND. May I ask the witness one question and I want to follow it up at Mr. Henderson's office later. Were you given any legal reason by Mr. Henderson's office why you could not sell the tires?

Mr. GRAHAM. I did not talk to Mr. Henderson's office. The attorney for the customers was in Chicago last week and spent 3 days going around to different departments, and among others, when he came back, he mentioned the fact that he had talked to Dr. Lewis personally.

Mr. KIRKLAND. Did he tell you whether Dr. Lewis was an attorney or not?

Mr. GRAHAM. I did not ask.

MR. KIRKLAND. Or is he an economic adviser?

MR. GRAHAM. I did not ask him that, I would not know.

THE CHAIRMAN. After the conclusion of the hearing, if it is the consensus of this committee that we take that up with Mr. Henderson, we will do so at once.

MR. GRAHAM. Were we in the position to return the money, we would then find ourselves with 75 additional tires on hand that we cannot sell.

THE CHAIRMAN. What I had reference to about the conclusion of the hearing, I mean the conclusion of the hearing today.

MR. GRAHAM. Yes. We cannot return them to our supplier. This case is typical with dealers throughout the Nation. All such tires have been and still are frozen. We feel that we should be granted permission to deliver these tires to their rightful owner.

Sales through independent tire dealers:

Until recent years all tires were sold through independent tire dealers. These dealers built up for their suppliers a public acceptance for their products and furnished at their own expense facilities for servicing these tires.

As time went on the manufacturer not being content to take his legitimate manufacturing profit, reached out into the retail field and opened retail stores in direct competition with the men who had been instrumental in building up their business, men whose lives' earnings had been invested in selling and servicing the products of these same manufacturers.

Many dealers have gone by the wayside, the more hardy ones, the men who were proficient, who were sufficiently financed, men who had gained the respect of their neighbors, have withstood this crushing, unfair competition of their own suppliers, and are today respected tire dealers in their respective localities.

These men have the facilities, they have the organization, they have financial responsibility, but what is more important they are selling the same tires that are manufactured by their suppliers who are competing with them through their company-controlled retail outlets.

Now, with the drastic reduction in the number of tires to be sold, these men face business disaster unless their own supplier withdraws from the retail field and reverts to that method of distribution through independent dealers that was instrumental in building up their business and gaining for them the respect they now enjoy in the minds of the public.

Were the independent tire dealers of America to be forced out of business by their own suppliers, it would entail a financial loss that is incalculable. It would throw out of employment many thousands of skilled tire men and ultimately it would react to the loss of prestige now enjoyed by the manufacturers who operate their own retail stores.

The loss in taxes to both local and National Governments would be staggering. In the interest of economical distribution, in the interest of more efficient service to the consumer, in the interest of keeping gainfully employed many thousands of skilled tire men, we feel that these tires should be sold through the independent tire dealers.

Our business is primarily selling and servicing truck tires. Both Mr. Campion and myself spent many years working for controlled company outlets. We did that during the period when trucks were changing from solid tires to pneumatic tires.

On opening our business, we recognized the need for servicing truck tires outside of our own place of business. We purchased equipment necessary to give steady service to trucks having tire trouble. We did that no matter where they might be within a reasonable distance from our plant.

Truck operators speedily recognized the value to them of this service. It cut to a minimum their road delays and they have favored us with their business, with the result that in 7 years we have built up a business where we have become recognized as one of the leading truck dealers in Illinois.

You will pardon me, gentlemen, if this sounds like self-aggrandizement. On the contrary, it is my idea to convey to you the fact that the independent tire dealer who makes a business of tires is in a better position to serve his customer than is a company controlled outlet who, in addition to handling tires, sells and services from a few to many hundreds of different articles, most of which are entirely unrelated to the tire business.

The staff service men of these company controlled stores are kept busy and when a truck owner is down on the street and in trouble, he must wait until that service man for the company controlled service finishes the grease job, the battery job, the radio job, the brake job, the refrigerator job, or any one of 100 other jobs before he is free to service that truck, with a resultant loss of time and money to the customer.

Today most of these trucks are loaded with steel or airplane engines, or shells or other things pertinent to the national defense. The independent tire dealers are in a better position to service the trucks of the Nation than any other medium of distribution. Were the independent tire dealers, were they forced to withdraw from the tire business in these terrible times, not only the truck operator who is undoubtedly working on defense, but more important the Government itself would lose a valued service and the experience of the independent truck dealer.

We, the Campion-Graham Tire Co., recommend that consideration be given to the losses that will be entailed should the independent tire dealer be forced out of business. It is our suggestion that during this present emergency the sale of tires be limited to the retail channels operated by independent tire dealers.

The CHAIRMAN. In other words, you say that the large mail order houses, they have say, 50,000 items to make a profit on, whereas the independent dealer only have one item to make a profit on?

Mr. GRAHAM. In my case, I have tires and tubes.

The CHAIRMAN. And the large oil companies, they have a number of items to make a profit on, and the sale of tires is one of their minor products as far as profit is concerned?

Mr. GRAHAM. That is right.

The CHAIRMAN. Yet it means life or death to the independent tire dealer who depends almost exclusively and entirely upon the sale of tires and tubes?

Mr. GRAHAM. That is correct.

The CHAIRMAN. Any questions, Major?

Mr. BULWINKLE. No, sir.

The CHAIRMAN. We will now hear from Mr. Hale, of Colorado.

**STATEMENT OF DWIGHT G. HALE, HAWKINSON TREAD SERVICE,
INC., COLORADO SPRINGS, COLO.**

Mr. HALE. I have 6 employees with a total number of 10 dependents. I do an average volume of \$15,000 annually with an estimated overhead of \$7,000 annually.

I have an experience in the business of 12 years. We, the independent tire retreading concerns of the United States, are equipped and ready to assist the Government by renewing tires, therefore conserving rubber at the present time. We feel that we are set up to handle the tire-retreading business for the Nation and we respectfully ask that it not be turned over to rubber-company-controlled store outlets.

The company-owned stores that are controlled by the major rubber companies, in my opinion, are just about as capable of handling the tire treading for the United States as a few large grocery stores located only in the cities would be capable of supplying the Nation's food supply.

Most of us who are independent tire-treading concerns are specialists in the business. We are trained to perfection on this one thing, whereas company-owned stores have so many items for their employees to think about that they are not specialists in anything. For instance, most of the company-owned stores have for sale such items as skates, bicycles, golf clubs, gasoline, oil, novelties, brake lining, batteries, electric toasters, mix masters, ice boxes, boxing gloves, and Christmas trees. In addition to this they have car washing, servicing, polishing, and greasing.

The company-owned stores to handle all the tire retreading business today would need materials and equipment that are very precious and needed by the Government in some instances, whereas the independent is set up to handle this business without needing as much in the way of additional new equipment.

In fact, in some States, company-owned outlets have no tire retreading equipment at all. In other States there are only one or two cities where this work could be done. As an illustration, let us take the States of North Dakota, South Dakota, Wyoming, Colorado, Kansas, and Nebraska, which we might say is the bread basket of America. There are many independent tire-treading concerns in the above-mentioned States but few company-owned stores have tire-retreading equipment in this territory.

We independents have many tire-treading places set up and operating throughout the United States and are equipped from the standpoint of knowledge and the standpoint of equipment to do the business.

As to the price ceiling set by the Government to go into effect January 19, it will necessitate a decrease in our prices as of 1937 and 1938. The price today as set forth by the Government, if we are classed as a top capper and by that I mean placing the rubber of the top portion of the tread of the tire, we will have to charge less

for our services than the retreaders are charging, or have been charging in the past, and that will be a reversal of the procedure on the price program.

In other words, no one questions the price that we charged during the price wars of past years when it was a fight to the finish with the rubber companies. No one questioned our price of \$6.95 on a 600 by 16 Hawkinson tread when the new tire companies were selling new tires at \$6.66. No one questioned our price of \$6.95 on a 600 by 16 Hawkinson tread when the national newspapers throughout the Nation were carrying advertisements by the major rubber companies of \$3.85 or less for top cap.

If we are confronted with the practice as set forth in the ceilings, I would like to have a clarification of the service angle of our business. I would like to know who is going to inspect the tire, and this must be done by an expert. I would like to know who is going to guarantee the tire. I would like to know who is going to take care of the service charge where the customer is loaned new tires, or used tires or tubes and wheels to be used while his tire is having a tread applied. I would like to know if the price includes the filling of nail holes and taking care of minor details on the outside of the tire such as scuffed rubber, and so forth.

I would like to point out, in the past 19 months, that the rubber companies who are our source of supply on raw material, commonly known as camelback, have increased the cost by 6 cents a pound. The Federal Government has added a 10-percent Federal excise tax, per pound, and we have been placed under a wage-and-hour supervision, therefore, in some instances necessitating an increase on labor.

Now, then, am I to understand that we are to reverse our practice to cut the price with all of these additional costs added in and go back to a lower figure than we were charging before the emergency?

I would like to say that if the tires in America today are turned over to our system of operators, that we will be able to deliver more miles per pound of rubber than any new tire company, or any tire retreading concern in the world, including those who are supervised and owned by the company-owned stores.

I would like to say that it is not consistent, from my way of thinking, that a Chevrolet automobile would be sold for as high a price as a Cadillac. It is common knowledge that our product has always been sold for a higher price than retreads and recaps.

I maintain that we should have a price ceiling based on a relative price, an average of the past 10 years. We maintain that the same value should be applied to our industry as is applied to the manufacturer of new tires. The price on new tires range according to their value. We ask that a relative value be placed on our industry. If our industry is allowed to fall into the hands of "gyps," if tires are allowed to pass through the retreader who does not care for inspection, who does not care for a guarantee, who is not interested in conserving rubber or interested in human lives, we will kill more people by accidents caused from faulty tires and inferior workmanship than bullets will kill in the present emergency for which we have enlisted for the duration.

The CHAIRMAN. Any questions?

Mr. HALLECK. Do you think there is enough retreading equipment in the country to do the job of retreading that we are going to have to do if this rationing order continues as it appears now that it will?

Mr. HALE. The Christmas rush is on now and we are all swamped. After it levels off, with slight additional expenditures, I believe we will be able to adequately take care of the demand.

Mr. HALLECK. Well, is it not probable that as these tires begin to wear down and people cannot buy new ones, that there will be more retreading to be done even than there is now?

Mr. HALE. Yes; and I would like to point out at this time, it is of vital interest that those tires be retreaded so that the rubber can be conserved.

Mr. HALLECK. I only asked that question because I have been fearful that there would not be enough. Apparently you think there will be too much retreading equipment.

Mr. HALE. If the Government so sees fit to direct the material which is so badly in need at this time to the channels of the independent dealer instead of company-owned stores, I feel we can take care of the demand, we independents.

Mr. HALLECK. Do the company-owned stores use the same sort of machinery and the process used by independents in retreading?

Mr. HALE. In some instances; yes.

Mr. HALLECK. If they did use the same kind of equipment, I take it, they could do the same sort of job?

Mr. HALE. If they used the same equipment with the same training, they could do the same job.

Mr. HALLECK. Are there widely divergent methods of retreading that are more or less valuable according to the type?

Mr. HALE. Yes. I can substantiate that with some figures that I have here of large concerns.

Mr. HALLECK. I do not know that I want to take the time of the committee to go into that, but it strikes me that if the supply of rubber is limited, why, we want to get the most miles out of every pound of rubber that we possibly can.

Mr. HALE. Let me quote you some quick figures here. This is a large concern and these figures are off of their actual cost records.

Prior to taking on the Hawkinson system, their cost per mile on truck tires was \$0.000786. Their cost today on truck tires is \$0.00085. Is that conservation?

Mr. HALLECK. Yes; that is significant.

Mr. HALE. I have a letter here, a photostatic copy of a letter from a large meat packer as of December 2, 1940, addressed to their entire organization stating the price on retreading and recapping and the prices on Hawkinson treading. As an illustration, the price on a Hawkinson tread that they were willing to pay back at that date for an 825 by 20 was \$16.95 and by other approved methods, they say the price they were willing to pay was \$12.37.

Mr. HALLECK. Which uses the most rubber?

Mr. HALE. Retreading.

Mr. HALLECK. Is that what you call the Hawkinson system?

Mr. HALE. No, sir. We say that the Hawkinson system is not retreading, and it is not recapping. It has been advertised nationally throughout the United States and throughout the world with news-

paper advertising, circulars, radio, handbills, and so forth, from Johannesburg, South Africa, to every corner of the United States and every State in the United States as not being a retread or not being a recap.

Mr. HALLECK. How much rubber do you use in retreading a 650 by 16 in pounds, how much rubber?

Mr. HALE. The figures will vary, of course, depending on how badly the tire is worn and how much rubber needs to be replaced to give you a new tire again, but we estimate on that tire 5½ pounds is necessary.

Mr. HALLECK. Is that crude rubber?

Mr. HALE. Camelback.

Mr. HALLECK. How much virgin rubber is there in a camelback? What is the percentage?

Mr. HALE. That is dependent on who is making the rubber, and as to whose specifications. Usually around 60 percent.

Mr. HALLECK. That is all.

The CHAIRMAN. About 3 pounds of real virgin rubber.

Mr. HALE. There is more actual rubber used between the plies, around the bead and in the construction of the carcass under the tread, or as much, I would say, as in the tread itself.

The CHAIRMAN. Thank you very much.

(Extension of remarks by Dwight G. Hale follows:)

JANUARY 15, 1942.

CONTINUATION OF TESTIMONY BY DWIGHT G. HALE, HAWKINSON TREAD SERVICE, INC., COLORADO SPRINGS, COLO.

INEQUALITIES

Order issued by Office of Price Administration, labeled P. M. 2120, and dated 10th day of January 1942, signed by Leon Henderson, Administrator.

Whereas in this order there are a number of inequalities in reference to pricing of retreaded, recapped, and top-capped tires. In order to clarify these in order that we may conduct our business in the full measure of the order, we respectfully call to your attention conflicts in the pricing of different types of tires.

Reference: Table No. 1, "Maximum prices for retreading, full capping, or top capping passenger car tires." The price allowed 600 by 16 passenger car tire, \$7.50, when using camel back, the market price of which, exclusive of Federal excise tax, is 26 cents per pound or over, with tread design depth of 12/32 or more. Please refer to table No. 4, heading "Maximum prices for retreading, full capping, or top capping truck airwheel tires, size 6.00 by 16, \$5.00."

Now, refer to table No. 5, "Maximum prices for retreading, full capping, or top capping stop-start tires, size No. 10 provides a price of \$8.10." Table No. 6, heading "Maximum prices for retreading, full capping, or top capping studded ground grip types, size 600 by 16, price \$8.15."

Table No. 9, heading "Maximum prices for retreading, full capping, or top capping ground grip type tires, size 600 by 16, price \$8.75."

You will notice that on size 600 by 16 tires, or their equivalent replacement, there are five different prices ranging from \$5 to \$8.75. It is a matter of common knowledge in the business of the reconstruction of worn tires that the same die size of rubber, the same quantity of rubber, and the same amount of labor would be used on all five different types of tires. Your attention is also called to the fact that whereas in table No. 1 qualifications as to the quality of the camel back, as indicated by the price and the thickness of the camel back as indicated by six different tread design depths are specified, on tables Nos. 4, 5, 6, and 9 no such specifications are indicated. To use a specific example, it would be possible in evasion of the spirit of this order to use rubber of a quality and tread design depth for which a price of \$4.40 is allowed on 600 by

16 passenger tires, on another type tire as provided, for example, in table No. 9, and charged \$8.75.

Please refer to table No. 2 size 1000 by 20, a popular size truck tire used by common carriers for retreading and full capping a 1000 by 20 tire with rubber at a base price of 28 cents per pound or over, and a tread design depth of 12/32 or over, a price is allowed of \$29.15; for top capping this size tire, with same specifications, the price is \$24.75. Now please refer to table No. 5, tire size No. 40, which is a replacement size or an alternate size for a 1000 by 20, a maximum price may be charged in the amount of \$44.50 with no requirements as to quantity, or quality as to the rubber used, nor a specification as to tread depth. Now please refer to table No. 9, whereas on a 1000 by 20 tire of the ground grip type, a price may be charged in the amount of \$41.75.

On the above it is possible with the existing equipment in the hands of the industry to use identical equipment, identical labor, and the same volume of material for this service, with a fluctuation of price from \$21.80 to \$44.50.

Attention is also called to the fact that in retreading and full capping truck and bus tires, size 600 by 20, 6 ply, a range of price varies from \$5.70 to \$7.60, depending upon the quality of the camel back, and the tread design depth. A 600 by 20 is a 20-inch diameter tire, and will require in the neighborhood of 2 pounds of additional rubber for the rebuilding process as compared with a 600 by 16 size where a range price varies from \$4.40 to \$7.50. This is manifestly unfair as both the labor and material required would be greater in rebuilding a 600 by 20 size truck tire than there would be in 600 by 16 passenger type tire.

This order also provides for maximum prices for basic tire carcasses whenever any tire carcass is furnished by seller. On tables Nos. 2 and 3 the basic price for a 1000 by 20 carcass is set at \$13.20. On table No. 5 the price permitted for a carcass, size No. 40 (which size is a heavier, sturdier, and more expensive tire when new), the maximum price permitted for a carcass to be furnished by the seller is \$11. To illustrate, whereas the price range for reconstructing a 1000 by 20 tire is from \$21.80 to \$29.15, the carcass, which is lighter, than a stop-start type No. 40, can be sold for \$13.20, whereas the stop-start No. 40 carcass which is heavier and worth more must be sold for \$11, but when a casing of this type is retreaded, full capped, or top capped the price for the service is set at \$44.50.

CONCLUSION

Our Hawkinson charges and our Hawkinson method have proven to produce mileage for less cost than any method, and at the same time do it with less rubber. Now then, the price ceiling established to go into effect January 19, 1942, permits higher prices to be charged for retreading and full capping, which is antiquated, wasteful, and impractical method of applying treads. We quote from Order No. PM-2120 of the Office of Price Administrator signed by Leon Henderson on page 6, paragraph (b) "Retreading" means the process of reconditioning a tire by removing all the original tread rubber from the worn tire down to the fabric and applying new rubber to the tread surface and sidewalls.

This method of the reconditioning of tires is antiquated because all modern equipment provides for the replacing of the wearing strip of a tire without removal of the shoulders or sidewall. It is wasteful of the material that we all wish to conserve because it requires new rubber to replace that rubber which is unnecessarily taken away in preparation of the tire for reconditioning by the retreading method. It is also wasteful because the retreading method requires the subsection of extreme heat to the entire carcass of the old tire, and it is common knowledge among all those familiar with the construction of tires that heat is harmful to both rubber and cotton and the least amount that is necessary for the proper curing of the rubber is desirable.

The retreading method is impractical because all modern equipment for the reconditioning of tires is based on removing as little as possible rubber from the old casing, and only a few shops with old and inefficient equipment would be in a position to recondition tires with the retreading method.

Over 400 well-equipped, well-trained, Hawkinson tire tread plants will be penalized even though the Hawkinson method requires less rubber for mileage given, preserves the life of the carcass so that it can be treaded many times if necessary, and is more durable, if the prices as fixed in order PM-2120 are allowed to be left in effect without revision.

Respectfully submitted.

DWIGHT G. HALE

The CHAIRMAN, Mr. McLaughlin of Nebraska is present, and he wants to file these telegrams.

(The telegrams referred to are as follows:)

(Telegrams)

OMAHA, NEBR., *January 14, 1942.*

HON. CHARLES F. McLAUGHLIN,
United States Congressman, Washington, D. C.:

Urgently request that you attend the Patman meeting of the small-business committee hearing on the plight of independent tire dealers, to be held in Washington tomorrow morning at 10 o'clock, using your influence to provide relief for the small independent tire dealer and car dealer.

JONES BATTERY & TIRE SERVICE,
M. E. JONES.

OMAHA, NEBR., *January 15, 1942.*

HON. CHARLES F. McLAUGHLIN,
United States Congressman, Washington, D. C.:

We urgently appeal you attend the Patman small-business committee hearing regarding plight of independent tire dealers. Meeting being held in Washington, Thursday, 10 a. m. Using your influence to provide relief for the independent tire dealers.

NATIONAL TIRE SHOP.

OMAHA, NEBR., *January 14, 1942.*

HON. CHARLES F. McLAUGHLIN,
United States Congressman, Washington, D. C.:

We urgently request that you attend the Patman small-business committee hearing on the plight of independent tire dealers to be held in Washington tomorrow morning at 10 o'clock, using your influence to provide relief for the small independent tire dealer and car dealer.

PAXTON & GALLAGHER,
P. C. GALLAGHER.

The CHAIRMAN. All right, Mr. Erlinger, you may proceed.

STATEMENT OF GEORGE J. ERLINGER, OF ERLINGER & WELCH, NEW YORK, N. Y.

Mr. ERLINGER. My name is George J. Erlinger. I am an independent tire dealer conducting a retail and wholesale tire business under the firm name of Erlinger & Welch, at 557 First Avenue, New York, N. Y.

I am appearing before you gentlemen today in the hope that I may be able to render some helpful suggestions relative to actions that may possibly be taken or authorized by you with a view toward lessening the gravity of the threat that presently confronts small independent tire distributors as a result of this Nation's entry into actual warfare with the Axis Powers.

Before going into my suggestions, however, I should like to give you an idea of my background in this industry, which is as follows: I have been an independent tire dealer for the past 19 years; I acted as president of the National Association of Independent Tire Dealers from 1935 to 1936; I have acted as president of Greater New York Tire and Battery Dealers Association for several terms; and I was a member of the N. R. A. Tire Code Authority in the Greater New York area for the life of that movement.

My firm, Erlinger & Welch, which has survived the constant strain of 19 years of fierce and many times illegal competition, presently employs 14 people in various capacities. It represents a fixed investment of approximately \$42,000. In normal times our annual business volume approximates \$148,000. Our overhead costs run about \$2,400 a month. And, at present, we are holding a "frozen" inventory valued at about \$16,000.

All this is now threatened with extinction. As proof of the foregoing assertion all I need to do is to call your attention to the fact that because of tire rationing our sales volume has been cut almost 66 $\frac{2}{3}$ percent while our general overhead costs which have, and have always been (due to competitive conditions), kept at the lowest possible minimum that would permit our continued efficient operations, remain necessarily the same as before.

Multiply the above by between 15,000 and 20,000, the approximate number of efficient representative independent tire distributors—wholesale and retail—now in business and you will easily get an idea of the harm that will be caused our present economic structure if no way out is found.

Fortunately, I believe, such a way out can be found. The following suggestions are my contributions on this subject. I urge that you give them, as well as those advanced by others who appear here today, most thorough consideration.

First, I urge that if it is at all possible, and I believe it is, that you act to restrict the privilege of selling tires for the length of the present rubber shortage to independent tire dealers alone. And I will say that I want to inject at this particular time that we independent tire dealers feel that if this dear Government of ours has the right to say who shall buy tires, they also have the right to say who shall sell tires.

Mr. BULWINKLE. How many independent dealers are there in the United States?

Mr. ERLINGER. Approximately 15,000 to 20,000.

Mr. BULWINKLE. How many men do they employ, I mean for the total, the total United States, if you know?

Mr. ERLINGER. I would not know.

In support of this last statement I ask you to think over the following facts: During this emergency many tire retailers are going to be forced out of business. If the company stores and the giant mass distributing tire agencies remain it will probably mean the end of the independent dealer. The reverse of this statement is also true. The question that naturally follows in this connection is: "Will the interests of the Nation be better served by the company store and the giant corporations, or by the small independent dealer?" I honestly believe the latter is better fitted to serve these interests because he is always closer to the consumer than the former, consequently he has more actual knowledge of the consumers' actual needs than have the former; and he is usually fully equipped to render immediate service for any and all consumer tire needs.

Gentlemen, I am not going to bore you with a lot of other statements which have already been made, but there is one plea that I would like to make, and that is this: At the present time the large

manufacturers are withholding camelback and using it in their own company-owned set-ups. There are a number of tire treaders which are forced to shut down.

The CHAIRMAN. Wait just a minute. That is a very serious charge. I presume that you are able to back it up with proof?

Mr. ERLINGER. I am, sir.

The CHAIRMAN. That the manufacturers are withholding this camelback which is absolutely necessary in the retreading, or recapping, of tires, and refusing to sell it to independents, but are furnishing it to their own stores that are in competition with the independents?

Mr. ERLINGER. Yes, sir.

The CHAIRMAN. Well, I think that ought to be looked into.

Mr. ERLINGER. Mr. Harris told us yesterday when we visited him at O. P. A. he had been receiving reports from all over the country, and I know several in New York City who can't get it, and it is not because of credit risks, because they are willing to pay cash.

The CHAIRMAN. In fact, I am inclined to think this committee should seriously consider what Major Bulwinkle suggested about releasing these tires that were sold prior to January 1 or, rather, before December 10, and then next consider requesting that the independent tire dealers be given the right to distribute these tires, since it means so much to them and it means so little to the different manufacturers, the large oil companies, and the mail-order companies.

Do you know of any other group that should be excluded, if any should be excluded, from handling the tires?

Mr. ERLINGER. I think you have covered it very well.

The CHAIRMAN. Go ahead.

Mr. ERLINGER. I wish to cite another case just presented to Mr. Harris where they had an A-1 priority to deliver tires to an ammunition dump which is being built at Camp Rahway, N. Y.

I requested my supplier to deliver the tires and he sent me a special-delivery letter telling me I would have to have that order made out to him exclusively, that they would deliver the tires and I would receive no compensation for that particular case.

Now, gentlemen, we have worked long enough for these big manufacturers for nothing and have had a very small stipend of 2 or 3 or 5 percent, and to turn around and run my car and establishment and turn the business over to them—it is a matter of evidence, and I have the envelope right here—is not right. In the meantime the truck was laying in Camp Rahway, New York, needing tires and we can't get it. That is a matter of evidence, and it is a fact, and it is over there right now.

Mr. FITZGERALD. I suggest you file that, Mr. Erlinger.

The CHAIRMAN. Or such expressions as you desire.

Mr. ERLINGER. Gentlemen, that is about all I have to say.

(Data referred to is as follows:)

CUMBERLAND, MD., January 10, 1942.

ERLINGER & WELCH RUBBER CO.,
New York, N. Y.

GENTLEMEN: We are returning herewith your preference rating certificate No. AN-3177433 received in this office today.

We are prohibited in making shipments unless we are first furnished with a certificate showing that the vehicles on which these tires are to be used devoted 75 percent of their time in Army or Navy use during the past 6 months. This certificate must be signed by the same person whose signature appears on your PD-3.

Also the Kelly-Springfield Tire Co. would have to be shown on this certificate as the supplier. Upon receipt of such certificate we would ship direct to Cooney Bros, our billing would be to Cooney Bros, and no credits could be issued to Erlinger & Welch. We sincerely regret the necessity of returning this certificate to you but we hope you will appreciate that we are being governed entirely by the restrictions issued by the OPM, one of which is that we are not allowed to ship to or bill our distributors for new tires or new tubes.

Yours very truly,

THE KELLY-SPRINGFIELD TIRE CO.,
J. T. CREEDAN,
District Office Manager.

New York, January 8, 1942.

KELLY-SPRINGFIELD TIRE CO.
Cumberland, Md.

GENTLEMEN: We are enclosing a PD-3 preference rating certificate for 4 8.25 x 20 Kelly registered T. & B. tires and 4 7.00 x 16 Kelly registered 6-ply tires if no 6-ply available, then 4-ply. This is to be shipped direct to Cooney Bros, Inc., Terrytown, N. Y.

If you will advise shipping date by return mail it will be greatly appreciated.

Very truly yours,

ERLINGER & WELCH RUBBER CO., INC.,
L. COLLIN.

PD-3

Original

OFFICE OF PRODUCTION MANAGEMENT
PRIORITIES DIVISION
Washington, D. C.

AN-3177438

PREFERENCE RATING CERTIFICATE

To: Ehrlinger-Welch Rubber Company, 557-1st Avenue, New York, New York.

1. In accordance with Section 2 (a) of the Act of June 28, 1940 (Pub. 671, 76th Cong. 3d Sess.), Preference Rating A-1-A is hereby assigned to the item(s) described below covered by U. S. Army or Navy Contract No. W7113-QM-2 placed with:

Name: Poirier, McLane & John W. Harris Company, Inc.
Address: Kendala, New York.
By: War Department, Corp. of Engineers.

Name and description of item(s)	Unit Quantities	Approx. Value	Required Delivery Date(s)
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Seneca Ordnance Depot—Storage Depot.

WHEN PREFERENCE RATING IS ASSIGNED TO MATERIAL ON A SUBCONTRACT RELATED TO THE PRIME CONTRACT NAMED IN PARAGRAPH 1, PARAGRAPH 2 MUST ALSO BE COMPLETED.

If this Certificate is not to be extended to a subcontractor, the countersigning U. S. Government official will rubber stamp Paragraph 2 "VOID."

2. In accordance with Section 2 (a) of the Act of June 28, 1940. Preference Rating A-1-A is hereby assigned to the material described below valued at

\$500.00, ordered from the Supplier by Cooney Bros. & Plaza Sand & Stone Corp., for delivery in accordance with the following Delivery Schedule.

Item No.	Name and description of Item(s)	Purchaser's Order No.	Date of Order
1			
2	4 Tires 8.25 x 20	296	8/26/41
3	4 Tires 7.00 x 16		
4			

*DELIVERY SCHEDULE	1st Delivery *Date	2d Delivery *Date	3d Delivery *Date	4th Delivery *Date	5th Delivery *Date	6th Delivery *Date	7th Delivery *Date	8th Delivery *Date
ITEM 1.....	Imme- diate.....							
Unit Quantities.....								
ITEM 2.....								
Unit Quantities.....								
ITEM 3.....								
Unit Quantities.....								
ITEM 4.....								
Unit Quantities.....								

*Delivery Dates are arrival dates of material at Purchaser's Plant. Installment deliveries must be scheduled when partial deliveries will meet requirements. If necessary, delivery schedules may be attached as a part hereof.

(See reverse side)

[Revenue]

3. AUTHENTICATION :

I hereby certify (a) that the material specified in this Certificate is essential for completion of the contract(s) cited herein, (b) that the specified quantities are not greater than required for said contract(s), and (c) that the specified Delivery Date(s) in the Installment Delivery Schedule on the face of this Certificate (or appended hereto) are not earlier than actually necessary for completion on time of said contract(s).

*Signature of Purchaser:

COONEY BROS. & PLAZA SAND
& STONE CORP.
By CHARLES M. SHEEHAN,
Asst. Treas.

*Countersignature of U. S. Government official:

[S] KARL R. ROGERS,
Karl R. Rogers,
Major, C. of E., Purchasing and
Contracting Officer.
Seneca Ordnance Depot,
Kendata, New York.

Date: Jan. 5/41.

Date: January 5, 1942.

*This Certificate is not valid unless this Authentication is countersigned by the appropriate U. S. Government official and (if extended as provided in Paragraph 2) signed by the Purchaser.

THIS CERTIFICATE IS NON-TRANSFERABLE

By authority of



D. M. Nelson,
Director of Priorities.

NOTICE TO SUPPLIER

1. The purpose of this Preference Rating is to insure delivery on the *Required Delivery Date(s)* insofar as such delivery can be effected without prejudice to contracts and orders bearing equal or superior Preference Ratings but, if necessary, subordinating other contracts or orders placed with you for private account or for export. Preference Ratings, in order of precedence, are AA, A-1-a, A-1-b . . . A-1-j, A-2 . . . A-10, etc.

2. If the Supplier is, or anticipates that he may be, unable to meet the *Required Delivery Date(s)*, the reasons therefor, together with attendant facts and circumstances, and the extent of the delay anticipated should be reported immediately to the U. S. Government official countersigning this Certificate.

16-20020 GPO

Distribute copies of this Certificate in accordance with instructions printed on each copy

ORIGINAL—TO BE FORWARDED TO AND RETAINED BY SUPPLIER

The CHAIRMAN. Any questions, gentlemen?
(No response.)

The CHAIRMAN. Thank you very kindly, Mr. Erlinger. Mr. Poole is next.

**STATEMENT OF P. O. POOLE, ALEXANDER TIRE DIVISION,
DURHAM, N. C.**

Mr. POOLE. My name is P. O. Poole of the Alexander Tire Division, Durham, N. C.

In view of the fact it has been necessary for the Government to "freeze" the inventories of tires and tubes due to the shortage of rubber in this country, we wish to make the following statements, comments, and suggestions.

First, let us state we are an independent tire dealer in a town of about 70,000 people, with a car and truck registration of around 10,000. Our parent company, which is the Alexander Motor Co. has been in the automobile business since 1915. In 1928 we organized as a part of this company the Alexander Tire Division, which has specialized in the selling of tires and tubes. Our purchases of tires and tubes alone from Firestone Tire & Rubber Co. during 1941 was something better than \$65,000. Our fixed investment in this tire business is \$35,000, and you can see it requires quite a volume of business for us to exist. We have on our pay roll 20 employees, of which there are some 35 dependents.

Our present inventory consists of approximately 1,000 tires and 2,000 tubes, which is about one-tenth of the tire and tube inventory in Durham County, and with the present rate of rationing which is about 200 tires and 200 tubes a month, will mean that our combined inventories will last this county 30 years, before complete liquidation.

It is needless for us to say that the tire and tube rationing has affected our business very seriously, and although we know and can appreciate the necessity of this rationing, but at the same time, we would like to make the following suggestions:

First, and foremost, that the ban on tubes be lifted to some extent, due to the fact that although a civilian many have good tires or re-

capped tires, should he have the misfortune of tearing up a tube by a nail or any other means, so that he could not use his car regardless how good his tires are, he still could not drive, unless he could find a good used tube. Experience and test have proven that millions of miles of service and tons and tons of rubber is lost yearly because of poor tubes losing air and causing the tire to wear excessively. If your committee should see fit to make any provisions on tubes, we would suggest that they require that every tube sold be installed on the piece of equipment the tube is purchased for. In other words, not under any condition should a tube be bought for stock.

Second, we would recommend that new tires and tubes be sold through the independent dealer exclusively, since the company-owned stores have their profit in the manufacture of tires and tubes for governmental use, and in their sales to us.

Third, we recommend that restrictions on third- and fourth-line tires be lifted, as it only stands to reason that anyone using a certificate to buy a tire would certainly not buy an inferior tire, such as the third- and fourth line.

Fourth, that the dealers who were foresighted and bought an ample supply of white sidewall tires, be permitted to sell these tires under the same terms and conditions that obsolete tires are sold.

Fifth, that an inventory be required each 30 or 60 days of the dealers' stock. And that some arrangements be made so that the dealers may exchange stock or dispose of their surplus stock at a small profit to some Government agency or with O. P. M. approval.

We trust you will give deep thought and consideration to these five points, because in that we do not have any desire or thought to impair or slow down any programs that the United States may make for the defense of our country, it means simply a chance for the small dealer to continue in business or close shop.

Mr. BULWINKLE. Did you sell any tires prior to this freezing order?

Mr. POOLE. Yes, sir.

Mr. BULWINKLE. That are in your warehouse?

Mr. POOLE. Yes, sir.

Mr. BULWINKLE. How many have you sold?

Mr. POOLE. I have only a few that were not delivered. They are still there.

Mr. BULWINKLE. Title passed and cash was paid?

Mr. POOLE. They were charged on open account. I don't know whether they were paid for by the 10th of December or not. But they were a legitimate sale and the reason the company didn't take them up was that they did not have the proper place to keep them.

They were commercial accounts, a wholesale grocer and a mill worker. They are the two that I have in mind.

Mr. BULWINKLE. That is all.

Mr. HALLECK. What was the reason you gave why the tires should be sold through independents rather than company stores? I don't know whether I caught that or not.

Mr. POOLE. Company-owned stores manufacture their own tires. They have their profit in the manufacture of the tires.

Mr. HALLECK. Will you read again the point where you said that—the words that you used on that?

Mr. POOLE (reading):

We would recommend that new tires and tubes be sold through the independent dealers exclusively, since the company-owned stores have their profit in the manufacture of tires and tubes for governmental use, and in their sales to us.

In other words, the manufacturer sells to the Government direct.

Mr. HALLECK. Is that the only reason that you would advance for the suggestion in that regard?

Mr. POOLE. Yes, sir. I feel like if there is profit to be made it should be divided among the independents.

Mr. HALLECK. I don't know what the province of the committee is, and I don't want to be misunderstood in respect to my attitude, but what would happen to the employees in the company-owned tire store if they couldn't sell any tires at all?

Mr. POOLE. They have other items.

Mr. HALLECK. Are you sufficiently familiar with their operations to say whether or not they could continue in business and keep their employees on in those stores if they didn't sell tires and depended on the sale of other things?

Mr. POOLE. I have been connected indirectly with Firestone in Durham for 15 years. We are an independent dealer, but we follow very much their program and sell their merchandise.

Mr. HALLECK. Do you have the same range of items to sell in your store as an independent that the average company store has in its store?

Mr. POOLE. If I could get them, but naturally when they have a new item they naturally get them right into their own stores, and if there is anything left and we want them they might provide them.

Mr. KELLY. You mentioned about a large distributor manufacturing their own tires. I know many cases where oil companies contract with the manufacturer of tires and where they haven't any plants themselves. I would like to find out just what amount of profit they derive before the tire is taken out of that factory. It is all on a contract order, isn't it? They don't operate their own individual plant?

Mr. POOLE. As I understand, and this is from hearsay purely, it is a cost plus basis.

Mr. KELLY. I know of instances where that prevails, where the large oil companies place orders with the tire manufacturers and that is all contract work, and they have their own name for the tire that is produced.

Mr. POOLE. Yes, sir.

The CHAIRMAN. Thank you very much, sir.

Mr. Seiberling.

STATEMENT OF J. P. SEIBERLING, PRESIDENT, SEIBERLING RUBBER CO., AKRON, OHIO

Mr. SEIBERLING. My name is J. P. Seiberling. I am president of Seiberling Rubber Co., Akron, Ohio. I asked to appear before this committee in order to suggest ways and means for preserving the existence and business life of 60,000 independent tire dealers in the present emergency. Preservation of the independent businessman is

in my opinion just as essential to the maintenance of freedom in America as conservation of rubber. Some persons think that you can't have conservation of rubber and preservation of independent tire dealers—that one or the other must go—but I disagree entirely with that viewpoint.

There is enough crude rubber and finished rubber goods inventory in this country at the present time that, with proper rationing, dilution, and conservation of use, the needs of the present and prospective armed forces of the Nation can be taken care of for 2 years to come and at the same time carry on essential civilian needs. This statement is made even upon the assumption that during the 2 years referred to, not another pound of crude rubber reaches our shores, which assumption in my opinion is an entirely false one in that it presupposes that the Japanese will shortly have conquered Malaya, Borneo, Java, Sumatra, and Ceylon, from whence comes 95 percent of the world's crude rubber; or that failing to conquer all of the far eastern rubber-growing areas, that the Japs will be able to effectively cut off all shipping of crude rubber to our shores, and that in either event the United States Army and Navy in that 2-year interval of time will have proved unequal to the task of opening the sea lanes to the Far East and driving the Japs out of the far eastern rubber-growing areas.

Such assumptions, particularly the latter, appear to me to be so false as to be the product of panicky thinking, despondent judgment, and a defeated, whipped spirit. If this Nation with its manpower, resources, energy, organizing genius, and drive can't get on top of the Japs and at least get them under control in 2 years' time, we ought to haul down the old flag now and call it quits. I am not insensible to the difficulties incident to waging war in tropical countries 12,000 miles across the seas, but I contend that if the Japanese can go 3,000 miles across the seas in 5 weeks' time, our forces certainly should be able to go 12,000 miles in 104 weeks' time, provided the will and determination of the greatest Nation on this earth is dedicated to that end.

I realize that this is a naval and military matter that can be fairly accurately determined and I would like to suggest to this committee that it is highly important that it be determined by properly qualified authorities, because on such determination naturally hinges the entire question of to what extent the available rubber in our land must be apportioned over the months of needs that lie ahead. I have yet to find anyone who has given an authoritative answer to the question. Opinions and estimates here in Washington run all the way from 6 months to 10 years. Obviously, if we have to fight a 10-year war with the amount of rubber on hand, we have one solution: if we have to fight a 6-months' war to reopen the rubber supply lines, we have another solution. As indicated, my own opinion is that 2 years should be ample time to reopen the rubber supply lines to the Far East in the event we are ever cut off therefrom, which is not now the case.

I have been reliably informed that since Pearl Harbor over 50,000 tons of crude rubber have arrived on our shores, and I anticipate that throughout all of the months of war that lie ahead that crude rubber will continue to arrive on our shores.

To take the extremely pessimistic view that the war is going to last for 10 years and more, and that during its existence we shall be without incoming rubber in any amount, is as destructive of the economic security and strength of our Nation as to take the Pollyanna view that the war will be over in 6 months, and there is no need for any program of crude rubber conservation. Therefore, I would like to repeat that the first service that this committee can perform for the Nation, the rubber industry, and 60,000 independent tire dealers is to take this matter of future months expectancy of crude rubber importations out of the realm of opinion and bring it down to authoritative, reasonable, factual estimates. I believe that such estimates will show that plans for conserving rubber laid on the assumption of a 10-year drought are absurd, and that plans laid on the basis of even a 2-year drought are entirely conservative, particularly now that the Government has decided to go ahead and expand the production of synthetic rubber in the next 18 months to the extent of 400,000 tons.

On the assumption, however, that we are to receive no crude rubber in appreciable amounts during the next 24 months and that therefore the 600,000-ton stock of crude rubber that we have in this country must be made to last for 2 years, providing a consumption of 300,000 tons for 1942 and 300,000 tons for 1943, as against a consumption in 1941 in excess of 750,000 tons and a normal yearly consumption of 600,000 tons, I am of the considered opinion that the present drastic plan of crude rubber civilian rationing is entirely too severe in many respects and if permitted to continue, will unquestionably destroy tens of thousands of independent businessmen in the tire business. What steps should be taken to provide these tens of thousands of independent businessmen in the tire business a chance for survival in the assumed 2-year period of crude-rubber drought? I have the following concrete suggestions to make:

First: The Government should take over stocks of all new tires in the hands of retailers and wholesalers, paying the owners therefor their cost price plus a modest extra allowance to compensate retailers for the loss sustained in the freezing of the sale of tires during the past weeks. This move would accomplish four objectives, namely: (1) giving the Government ownership of all the finished goods inventory in the Nation to go along with the ownership of all of the crude rubber in the Nation; (2) permitting the Government to pool sizes and types and thereby effect a smooth and orderly liquidation; (3) preventing the development of a "bootleg" tire market that, I regret to say, has already sprung up; and last, but by no means least, enabling independent tire dealers to remain financially liquid so that they can pay their bills, indebtedness, and have working capital with which to finance temporary losses and keep their doors open.

Second: Provide that the needs of the public for new tires under the rationing program be served through independent tire dealers. If the Government has the power to say who can buy tires, it would seem that it has the power to say who can sell tires. By limiting the sale of new tires to the public through independent dealers only, the available volume of business flowing through independent merchants will be approximately doubled, as the mail-order houses, chain stores,

company-owned stores, and oil companies now handle approximately 60 percent of the replacement-tire business. This loss of business by the so-called mass distributors will affect their business existence practically not at all, because the sale of tires represents such a small portion of their total business, and the financial resources behind them are so very great; whereas with this additional volume, independent tire dealers are provided with a better chance for survival. The time-honored rule of emergency has always been that the strong shall help carry the burdens of the weak, and it is inconceivable to me that in this time of great peril, the mass distributors would not be willing to give up something, the giving up of which would harm them very little, if in turn it would help preserve the business existence of 60,000 free and independent, self-respecting American citizens.

Third: I suggest that no limitation be placed on the rubber needed for the repair and upkeep of present tires running, thus enabling the conservation of potential service mileage in the millions of tires now in use and at the same time providing independent dealers with income to be derived from servicing the repair and upkeep of tires in service and aiding conservation of the potential transportation mileage involved. For years the paint industry has advertised, "Save the surface and you save all." The same principle applies to tires. The repair of cuts and bruises, and the recapping of tires before the cotton carcass is damaged will save literally millions of miles of tire wear. Furthermore, reclaimed rubber can be used in greater quantities for such repair materials and recapping materials than is now the case, and thus reduce immeasurably the amount of rubber needed for this type of constructive service work. The present program limiting the repair and recapping of tires in service is in my judgment a "penny-wise and pound-foolish" program in that it is causing the destruction of more good rubber in service than it is saving good rubber not in service. Besides if you greatly restrict the sale of new tires by independent tire dealers under a drastic rationing program and then take from those independent tire dealers the opportunity to service the tires now running, you in substance take from these countless thousands of businessmen the last hope that is theirs of fighting a battle for existence.

Whether mass distributors, or idealistic, theoretical, economists like to admit it or not, the fact of the matter is that it has been the daring, ingenuity, resourcefulness, courage, enterprise, energy, and determination of the small independent businessman that has built this great Nation of ours up to the point where it has become the envy, pride, and hope of freemen the world over. It is the independent businessman on the crossroads of America that has kept alive the pioneering spirit of freedom and independence which has been the mark of distinction of this Nation since the days of the founding fathers. Wipe out and destroy independent businessmen and you wipe out and destroy our country's greatest bulwark for the preservation of liberty.

I thank you.

The CHAIRMAN. Any questions, gentlemen?

Mr. HALLECK. Yes.

I didn't quite understand your suggestion about paying the dealers for the tires. Would you leave the tires in the hands of the dealers but pay them their cost plus?

Mr. SEIBERLING. No; I don't think that is necessary. That could be done.

The easiest and simplest way to do it is to bring all the tires in to the manufacturer's warehouse. There transfer the title to the Government.

Of course, the money for the tires would go back to the dealer. That puts the dealer in a liquidated position and then as the rationing orders come through the dealer could draw on the manufacturer or any manufacturer for the tires he needs.

Mr. HALLECK. That is, if I had one of these certificates and needed a tire badly I would have to wait until the dealer could get it on from the manufacturer?

Mr. SEIBERLING. That is correct.

Mr. HALLECK. And you would have the transportation of tires back to the company, and then from the company to the dealer?

Mr. SEIBERLING. It could be done by transferring title to the tires right in the dealer's place of business, if the Government would trust the dealer to act as custodian for the tires.

Mr. HALLECK. Just so we understand about it. Are you advocating that the Government take the tires over that the dealer now has, at their cost price to the dealer?

Mr. SEIBERLING. Plus a reasonable compensation for the month or 6 weeks or so that he has been frozen and had to carry on at a loss.

Mr. HALLECK. I raise that question because the few suggestions that heretofore been made, both with respect to tires and automobiles, is that if the Government is to take them over, that it pay the retail advertised delivery price.

Mr. SEIBERLING. Well, that would be fine, so far as the dealers are concerned, but, of course, the Government has some cause in holding that inventory and, eventually, the tires would have to be returned to the dealer at a certain price, and the dealer in turn would have to take his profit in the servicing of the tires, so that it seems to me that to take and simply sell to the Government at the present time the inventory finished goods in this industry at the resale price precludes any opportunity of a reward to the dealers of the future for servicing the tires, and handling the needs of the people of the country unless, later on, you raise the price again.

Mr. HALLECK. Does your company own any stores?

Mr. SEIBERLING. We do not.

Mr. HALLECK. Your tires are all merchandised through independent dealers?

Mr. POOLE. That is right.

The CHAIRMAN. Any other questions, gentlemen?

Mr. HALL. Under the proposed program which you set forth, the Government takes over the tires and pays the dealers for them. That puts them in a liquid position for the moment, but it doesn't help to keep them in business, does it?

Mr. SEIBERLING. It does if you release a sufficient amount of rubber that the dealers need to service the tires. It is true that there

is at the present time a strict release on camelback and rubber material. Practically every manufacturer in the business has picked up great quantities of unfilled orders, and I think in the last 10 days the amount of rubber to be released for this purpose has been choked down again and shortened, so that the situation instead of becoming easier is becoming tighter.

Mr. HALL. How would that affect the average tire dealer? Does the average tire dealer do recapping and retreading?

Mr. SEIBERLING. He doesn't at the present time, but as time goes on that is going to become the business. In the early days of the business, 20 or 30 years ago, the service end of the tire business was the principal part of the dealer's service, patching casings, repairing tubes, and that sort of thing. As the improvement in the product came and as a man exchanged a tire, that was getting down for a new tire, that became the least part of it. They are going back to that now.

Mr. HALLECK. Have you tried to buy any raw rubber for your company since Pearl Harbor from the Far Eastern sources of supply?

Mr. SEIBERLING. Oh, no. The purchase of crude rubber last June or July was taken over by the Rubber Reserve. The Rubber Reserve has been importing all rubber since about the 1st of July.

Mr. KELLY. Have you been unable to purchase any of that stock?

Mr. SEIBERLING. The Government has been buying all rubber. They made a contract to take the entire output of rubber.

Mr. HALLECK. Is your company able now to get all the rubber it needs to keep your company going? Are you still making tires?

Mr. SEIBERLING. Truck tires, but no passenger tires.

Mr. HALLECK. Your statement that 50,000 tons of raw rubber have been brought over since Pearl Harbor—

Mr. SEIBERLING. That is right.

Mr. HALLECK. Do you think that can be substantiated?

Mr. SEIBERLING. I think that can be substantiated. The Rubber Reserve will have the exact figures. There were 115,000 tons afloat when the war broke.

The CHAIRMAN. Mr. Seiberling, as you state, the Rubber Reserve Corporation under the R. F. C., since last June has been purchasing all rubber and all manufacturers have been compelled since that time to acquire their stocks from the Rubber Reserve Corporation—

Mr. SEIBERLING. That is correct.

The CHAIRMAN. That being true, if a manufacturer gets rubber from the Government and then he sells it only to his own company's recapping and retreading places, and refuses to sell it to the fellow in competition, doesn't it seem to you to be a little unfair?

Mr. SEIBERLING. It does to me; yes.

The CHAIRMAN. That the large rubber companies are selling to their own outlets this camelback for repairs but refusing to sell to independents who are in competition with their own customers.

Mr. SEIBERLING. I don't think there is necessarily a refusal. I think they are taking care of No. 1 first, and what is left over, if any, goes to No. 2.

The CHAIRMAN. And No. 2 doesn't get any!

Mr. SEIBERLING. In the present extremity No. 2 is out of it.

The CHAIRMAN. Thank you very much, Mr. Seiberling.

STATEMENT OF J. W. WHITEHEAD, PRESIDENT, NORWALK TIRE & RUBBER CO., NORWALK, CONN.

The CHAIRMAN. Give your name, business, and residence address to the reporter, and proceed, Mr. Whitehead.

Mr. WHITEHEAD. My name is J. W. Whitehead. I am president of the Norwalk Tire & Rubber Co., which was organized in 1914, since which time we have been engaged in the manufacture of the following products: New automobile tires and inner tubes, storage batteries, fan belts, radiator hose, retreading rubber for used tires, and soles for footwear.

I have been president of the Norwalk Co. for 14 years and associated with manufacturing and distributing tires through independent tire dealers for 33 years. Prior to the freezing order of O. P. A. we employed approximately 600 people. We are now reduced to about 40 percent of that number, and since the January 5 freezing order we have not sold a single tire or tube against these certificates that are required.

I want to confine this statement to two parts: First, as to independent dealers; and, second, as to manufacturers.

I realize the vital necessity for Government interest in rubber conservation and, in principle, approve of the tire-rationing plan, but I am of the opinion that it could now be modified to greatly minimize the dislocation of independent tire dealers. I will define an independent dealer as: (a) One whose sales volume for 1941 was not less than 75 percent new tires and tubes; (b) one engaged in the business of retailing tires at least 6 months prior to January 1, 1942; (c) one whose business should be the selling of tires and tubes 100 percent to users; (d) one whose financial set-up is entirely free from outside dictation.

This independent tire dealer can be a great asset to the Government's plan of conservation of rubber. He is an expert in advising how to procure maximum mileage from tires. The saving is so great in this respect that his advice and counsel could very easily double the amount of mileage a tire would deliver.

All tires rationed to any source of user supply except Federal Government should be sold through him, and a great amount of tire miles could be saved and would make his staying in business worth while to the Government. The rationing plan should make it easy for him to dispose of tires now frozen in dealer stocks for old cars—let us say those sizes that will not fit cars made within a period of 6 years. To insist upon certificates, with Board approval, to dispose of such stock would seem unnecessary.

All independent tire dealers should be classed as inspectors under the rationing plan—not just two or three, as now to serve in, say, a city of 40,000 people, which can easily lead to discrimination. The Government should work out a plan with manufacturers whereby dealers could return their surplus stock of tires now tied up under the freezing order.

I would like to make clear, gentlemen, that I don't think it should be necessary for the dealer to return all his tires. I think any independent dealer should be privileged and would be willing to carry a sufficient stock of tires to take care of the reduced selling requirements.

But it should be made so they can return the surplus stock of tires not tied up under the freezing order.

Because of the present frozen status of dealer stocks, he can neither get out nor stay in business.

Independent tire dealers should be the sole handlers of rubber for retreading purposes. Manufacturers of new tires and tubes should be excluded from this business—I might say we are in it but I believe we should be out of it under the circumstances—as well as from selling, either directly or indirectly, new tires to any class of user.

Unless the Government is definitely committed to a program of getting all passenger cars off the streets, which the last order to manufacturers of rubber for retreading purposes would indicate, the independent tire dealer should have some authority in respect to the class of rubber he needs for his retreading requirements.

Under the present program that is being handled and given out to him by Government agency.

Many of these independent dealers have retreading equipment for only one type. Some manufacturers have equipment to retread truck tires and others have passenger equipment only, and some have both, but the Government is limiting the amount of stock in such a way that the dealer has no authority as to what he may do.

Now, as to small manufacturers, the present Government policy of buying by bid—I am talking now of Federal Government buying—whether Army, Navy, or Lease-Lend, necessitates the manufacturer successful in getting the business, who might not have the sizes and types required, withdrawing rubber from the reserve to build them up, irrespective of how many of these tires might already be frozen in the stocks of other manufacturers on which satisfactory prices could be arranged.

I would like to elaborate on that a little. Under the present method of buying tires by the Government there may be certain sizes that the low bidder will get. He may have none of those tires in stock. Yet other manufacturers have a warehouse, probably enough to last him over a decade.

If the present Government method of buying by bid could be set aside during the emergency and purchases allocated to all manufacturers on a fair and equitable basis on a negotiated-price plan, probably in some manner similar to that now in effect in Canada, it would prove more than likely less costly to the Government and the bottleneck if deliveries would be removed, as there is ample equipment to take care of today's requirements, some of which is now and has been for some time past idle, notwithstanding successful bidders constantly required to obtain priority ratings in order to purchase new equipment to fill those orders.

This proposed plan would quickly release assets now tied up in frozen stocks and would remove with it centralization of the tire industry and the many ramifications that go with it. These ramifications can be visualized as having very distinct disadvantages, particularly so far as it affects labor.

This plan would, of course, involve standardization of prices, which should not be bothersome to the Government, however, who are now fixing the prices from manufacturer to dealer and dealer to user; therefore should be able to do so satisfactorily from manufacturer to Federal Government.

In the rationing of dealer sales, both manufacturers and dealers are adversely affected by plan of rationing all the way down. For instance, the dealer sells a tire against a certificate. He must present that certificate to a manufacturer or other dealer for replacement. If he does so to another dealer he loses the opportunity to replenish his stock.

If to the manufacturer who might be some distance from his place of business, he can only do so, provided he has a tire in stock to sell. In other words, he cannot sell a tire of the brand he handles if he does not happen to have that particular tire in stock because he cannot get it from the manufacturer until after he does sell, irrespective of how long his customer may be willing to wait.

The present Government policy of rationing in this respect should stop with the dealer and that dealer should be permitted to purchase such stock from his manufacturer as he deems advisable. He will see to it that his investment in his tire stock is not out of proportion to his turn-over.

Under this plan the transportation and handling, which would be as great probably on one or two tires as it would on six tires, would be a tremendous factor in keeping the dealer and the manufacturer satisfied with their present frozen selling prices.

The CHAIRMAN. Thank you very much, Mr. Whitehead.

Now, Mr. Bellin and Mr. Yoder, will both you gentlemen come around here, if you please?

Do you have prepared statements?

Mr. BELLIN. Yes, sir.

Mr. YODER. Yes, sir.

The CHAIRMAN. I wonder if it would be asking too much of you gentlemen to give us the benefit of your views, in major parts, as briefly as you can, and file your whole statement in the record. Time is running short and we have to go to the House right away. Would that be satisfactory?

Mr. YODER. Yes, sir.

Mr. BELLIN. Yes, sir.

STATEMENT OF BROMLEY BELLIN, PRONTO TIRE CO., NEW HAVEN, CONN.

Mr. BELLIN. My name is Bromley Bellin and I do business at 559 State Street, New Haven, Conn. I operate the Pronto Tire Co. and do mostly a jobbing business selling gas to filling stations, garages, and so forth.

I have here about six pages of material which I wanted to read, but since I am confined to about 2 minutes, I will tell what I think is the most important thing before this committee.

As far as suggestions go for conserving stock, my predecessors have given about the same things I have here outlined.

However, I do want to say this, that when I was asked to come here to testify I communicated with four major outstanding tire dealers in the New Haven territory and I think you would be interested in knowing what they had to say. Not one of those dealers, which includes myself, have ever made a single tire sale to any ration-card holder up to the evening of January 13 when I made my survey.

I myself employed two salesmen both of whom are married and both of whom I have been compelled to discharge. I operated two truck drivers, both single, both of whom I have been compelled to discharge. I operated two trucks, one of which I have sold because it was superfluous and the other truck I am keeping on the lot idle in the hope that some relief may develop so that I can continue in business.

Thank you.

The CHAIRMAN. Thank you very much, sir.

(The statement submitted by Mr. Bellin is as follows:)

It is with a full appreciation of the fact that we are engaged in a war that I appear before you. I want to do everything in my power to do my part, as a tire dealer, in the conservation of rubber for defense; at the same time I sincerely believe that new tire sales curtailment, as it is now in effect, can be modified so that no injury will be done to the defense program and no undue hardship imposed on the tire dealers, the public, and others heretofore affected.

I realize that you have been burdened with many stories of the hardships of tire dealers all over the country, but I respectfully ask your further consideration of a cross-section of conditions as I found them in my territory, New Haven, Conn., by communicating with four outstanding new tire dealers on January 13, 1942.

These dealers depend on their new tire sales for the major part of their incomes. They are the Byron Tire Co., Gerry Stevens, Inc., Meyers & Schwarz, and the Cooper Tire Co., Inc. Not one of these have yet made a sale to a ration-card holder.

One dealer has discharged two men, both married, and each having one child; another has dispensed with the services also of two men, both married, one having two children, the other one child; another dealer has not reduced his personnel yet, but expects to dismiss three people on the office and sales force at the end of this week; the fourth dealer expects to dispose of his people very shortly.

All of these dealers also do retreading, either themselves, or through their factories. They all report shortage of camelback and are therefore turning away dealers and retail customers who bring their own casings for retreading. Two of these who do a jobbing business report accounts receivable frozen either because the latter cannot liquidate stock to have money to pay, or they are withholding payment expecting bankruptcy of their sources so that in this way they will escape meeting their obligations.

One firm has of late years been trying to swing into selling refrigerators, radios, washing machines, and auto accessories, but now finds it cannot get this merchandise either. One dealer states that the January quota for the New Haven district on passenger tires was about 300, or roughly 10 tires daily. If he were fortunate enough to get 10 percent of their business, he would sell 1 tire daily. His weekly overhead is \$1,000.

Please bear in mind, gentlemen, that there are about 500 tire outlets in this district, so if he got his 10 percent he would be most fortunate. All these dealers state that from present indications, unless drastic changes are made and relief secured, they will have to cease operations. One dealer, if he could liquidate his stock, would reinvest in retreading equipment and materials if he had some assurance he would get camelback.

This same concern has a number of trade acceptances shortly to mature and will have to let them go to protest.

Now, gentlemen, that is the experience of only four dealers. You may be interested in that of my firm, the Pronto Tire Co. I have not sold a single new tire on a ration card either. Since December 11 I have sold four new tires by special permission of the Office of Production Management. For the month of December 1941 I lost \$500. I used to employ two salesmen, both married, and two drivers, single. I have had to dispose of their services entirely.

Further, I have sold one of my two trucks since tire curtailment made such equipment superfluous, but I am keeping one truck in the hope of relief forthcoming. I never did retreading before. A week ago I began collecting casings for this purpose and shipping them down to my factory to be retreaded. I have now been told to stop shipping any more since there is no camel back available, or at best very little of it.

I am only a small tire jobber in New Haven, Conn. I have some 600 new tires in stock now. Last week in my district some 5 tires were rationed out. If I was fortunate enough to get all these sales and if the rationing kept on at this weekly rate, it would take more than 2 years for my stock alone to move. But since I got none of this business, and if I do get an occasional tire sale, frankly, gentlemen, it appears that my stock would dry rot and lose most of its efficiency so that the purpose of this curtailment in the sale of new tires would be defeated.

May I respectfully submit some suggestions to conserve rubber and aid the tire dealer and others. These suggestions may be considered individually, collectively, or alternatively.

1. I suggest that for camelback scrap and reclaimed rubber be added to crude rubber in greater proportion in order to save rubber, consistent with safety, of course.

2. I suggest that more classifications be added to permit other vehicles to use tires, such as salesmen who must use cars to properly conduct their work, delivery trucks which are needed for the proper conduct of business, such as furniture, grocery, drug store, delivery services, etc. Also for defense workers who otherwise would find it practically impossible to reach their places of employment, since in this area there is considerable defense activity.

This suggestion is made to move tires a little faster to prevent their deterioration and give new tires now in stock greater movement since even retreads today take 6 weeks and longer before they can be made, and then often one tire at a time for a vehicle, if said vehicle is to continue operating.

3. I suggest that new tire sales be restricted to outlets whose major volume of business is new tires. This would serve many purposes. In the New Haven district there must be at least 500 businesses selling tires among other things; of these 480 have tire sales approximately 3 percent of their total sales revenue.

It would be a Herculean task to regulate those and prevent bootlegging. But if this number was reduced as herein suggested, this would dwindle to maybe 20, who could be regulated more easily. These latter are usually more careful businessmen, are able to keep better records, and give more complete service to those in need of tires.

Further, since these tire outlets depend on tire sales for their existence, while the other outlets don't, the former would be more severely affected and maybe face bankruptcy. However, the other dealers, where tire sales are only a fraction of their total business, would not be severely injured. What tire stock these latter dealers have could be bought by the Government and resold to the remaining tire outlets, or used for whatever other purpose the Government saw fit.

These remaining dealers would have to mount the tires when sold to avoid hoarding. I would also suggest that these dealers sell only two new tires at a time to only one buyer in a current year. If this buyer needed more tires he could buy retreads.

4. Under present rationing plans tires will become almost useless before they are eventually disposed of. If the Government prefers, it can purchase all existing stocks from tire dealers and use them for new motor vehicles for Government or other proper use. This will make it unnecessary for new car manufacturers to look to tire manufacturers for equipment tires. Thus tire dealers will obtain relief and crude rubber will be converted to other defense needs.

5. If the Government finds it inadvisable to buy the tires from dealers, then let stocks remain as is, but subsidize the tire dealers by paying his essential expenses, such as light, heat, telephone, rent, and a living wage. In this way tire dealers can remain in business, take care of future rationing and sales, perform essential services to motorists in trouble. This will prevent wholesale disruption of a very important industry and keep it intact and ready to swing into action when things are normal again. Here, too, it is suggested that with stocks frozen, a moratorium on debts be declared for this duration all the way back to affected places.

6. I further suggest that a monthly quota be established for each tire dealer by dividing his present stock into 12 or 24 monthly periods, so that some sales can be made, and yet not have all his stock disposed of too quickly. This will give him some income and reduce the sum necessary by the Government to subsidize him, should subsidy be favored.

7. I also suggest that should dealers be unable to meet city, State, and Federal taxes due to curtailment, that a moratorium on such taxes be declared for the duration, or as soon as dealers can recover from their present set-backs. While

on taxes, dealers have already paid excise taxes on all tires in stock now, and these same taxes have not been recovered because these tires have not been sold.

6. Possibly a loan, with no interest, to cover tire inventories and accounts receivable might be arranged to tire dealers by the Reconstruction Finance Corporation, to be paid back as stocks are liquidated and accounts receivable collected.

If new tires are not going to be available in any practical quantity, I believe that more camelback should be apportioned to this area in order that retreads can be made available to the many defense workers here.

In conclusion may I urge that whatever relief action is taken that it be immediate. Tire dealers have suffered much; every day adds to their suffering. Expenses are piling up and no money is forthcoming. Soon there will be no money to pay for small yet essential services such as telephone, light, heat, and rent. Our defense need is great; it must also seem necessary to keep the economic front as secure as possible.

STATEMENT OF CHARLES F. YODER, BAKER & YODER, PHILADELPHIA, PA.

Mr. YODER. My name is Charles F. Yoder and I am a member of the firm of Baker & Yoder, 109 North Twenty-second Street, Philadelphia.

Both my partner and I are former company-owned store managers and have been in business 5 years for ourselves.

My predecessors have outlined our problems with the exception of one thing. When this freeze order went into effect I applied to our bank for a loan on warehouse receipts. The official down there took it up with his board and 2 days later was very anxious to grant the loan providing we put them in a warehouse, but after seeing the cost of storage and so forth that would pile up over a period of months it would not be a good way to liquidate them.

I suggest we be allowed to dispose of our premium price tires and white wall tires which will deteriorate, and then give us a good rate of camel back which will greatly assist us in carrying on.

The CHAIRMAN. Your statement will be filed in the record.

Mr. Seiberling, will you please come forward?

Naturally, when we have a shortage like this every effort is being made to find some substitute. It has been suggested, I noticed in one of the newspapers, since we have an enormous surplus of cotton, some 8,000,000 bales of cotton that was stored, almost a year's crop, that we could use cotton cord in the making of tires with a very small amount of rubber, only a sufficient amount to hold a cord together.

Do you think a good tire, one that would be usable and worthwhile, could be manufactured that way?

Mr. SEIBERLING. Well, you can't just fake cord and make a tire out of it without a certain amount of rubber. The so-called all reclaimed tire is largely a promotional idea.

The waste of reclaiming and the waste of life in such an all-reclaimed tire would be terrible. You have to have a certain amount of rubber. The estimates on a 600 by 16 size tire as to how far you can go in eliminating the use of rubber, varies from 3 to 5 pounds. The average 600 by 16 tire now, first-line, first quality, takes about 10 pounds of rubber.

The CHAIRMAN. Is that what you call virgin rubber?

Mr. SEIBERLING. Crude rubber, virgin rubber. And there is a program, a very intelligent program, I think, now being prepared where they are cutting down the amount of crude and, as a result of that they anticipate that by using less crude and more reclaimed in tire products, that they can efficiently increase the amount of the rubber stock pile to 20 percent, but when you get below a certain percentage of crude rubber to reclaim, or get down to where you have no crude rubber, you have an impractical tire. Safety would prohibit it, if nothing else.

The CHAIRMAN. You mean you can only use 20 percent virgin or crude rubber with reclaimed to make a tire, or do you mean you will add 20 percent virgin rubber to the reclaimed?

Mr. SEIBERLING. No; you misunderstood me.

The CHAIRMAN. I wish you would make that plain, please.

Mr. SEIBERLING. I mean by the use of reclaimed rubber—

The CHAIRMAN. Suppose we use 10 pounds in the making of this tire.

Mr. SEIBERLING. That is right.

The CHAIRMAN. How many pounds would be reclaimed?

Mr. SEIBERLING. At the present time, none.

The CHAIRMAN. Under the new process?

Mr. SEIBERLING. Under the new process you can go down all the way to 3 pounds of crude rubber.

The CHAIRMAN. And 7 pounds of reclaimed?

Mr. SEIBERLING. That is right.

The CHAIRMAN. And 3 pounds of crude?

Mr. SEIBERLING. That is right; but that is considered the minimum.

The CHAIRMAN. Do you think that would make a fairly satisfactory tire?

Mr. SEIBERLING. It would not be satisfactory, but it would do.

The CHAIRMAN. Do you know of any other new process that is being developed for the making of tires, in view of this emergency?

Mr. SEIBERLING. Of course, the synthetic program is beginning to take on importance, and this is fundamentally a sound program.

The CHAIRMAN. How long do you think it will take the authorities to produce a sufficient quantity of synthetic rubber to partially relieve this great shortage?

Mr. SEIBERLING. All of 2 years.

The CHAIRMAN. Do you believe the existing rubber can be stretched out, on the theory of 2,000,000 automobiles, over that period?

Mr. SEIBERLING. Definitely.

The CHAIRMAN. It can be?

Mr. SEIBERLING. You see, during the last year the industry consumed over 750,000 tons of crude rubber as against an average before that of about 600,000 tons. You have probably more good rubber on the cars of America today than at any time in the history of this Nation.

The CHAIRMAN. Do you mean to say in 2 years that you will be able to produce an enormous quantity of synthetic rubber and that you will be able to produce enough for the Army and Navy needs, and also civilian needs?

Mr. SEIBERLING. Well, what are the needs of the Army and the Navy?

The CHAIRMAN. Don't you think that would be an important question for the committee to inquire into as well as inquiring into the question of quantity of existing rubber?

Mr. SEIBERLING. That is the most important question that faces the committee in this work, because everyone wants the Army and the Navy to get all the rubber they need to do the job and they are willing to take what is left over, if any, but the question is what do they need.

The CHAIRMAN. Are there any other questions?

Mr. KELLY. Now, this synthetic rubber has not got the body to it for tire purposes, has it?

Mr. SEIBERLING. That is the surprising part. Synthetic rubber for certain uses in some respects is better than crude rubber.

Mr. KELLY. For insulation purposes I know it.

Mr. SEIBERLING. And certain types of tread requirements, where you need a very strong tread. It will do a very good job there. In Germany, of course, they have been using synthetic practically for 2 years.

Mr. KELLY. It is practically a German invention.

Mr. SEIBERLING. Yes; I happened to see the first plant in operation when the first batch was turned out.

Mr. KELLY. And you think that can eventually be worked out where they can get all the uses in this country?

Mr. SEIBERLING. With the program proposed now, this country has nothing to fear.

The CHAIRMAN. Even without the Dutch East Indies?

Mr. SEIBERLING. Even without the Dutch East Indies.

The CHAIRMAN. Any other questions?

Mr. HALLECK. Did I understand you to say that a 6.00 by 16 tire requires approximately 10 pounds of rubber?

Mr. SEIBERLING. That is correct.

Mr. HALLECK. And your view is that the minimum amount of crude rubber going into a tire to be made principally of reclaimed rubber, is 3 pounds?

Mr. SEIBERLING. Of that size.

Mr. HALLECK. If that is true, wouldn't it be better to recap existing tires with that crude rubber than to try to make reclaimed tires?

Mr. SEIBERLING. Absolutely.

Mr. HALLECK. I notice a number of the companies have advertised or said something about how they were going into the production of reclaimed rubber tires.

Mr. SEIBERLING. As I said, in my opinion that is a promotion proposition.

Mr. HALLECK. Do you know of any companies that are actually making them?

Mr. SEIBERLING. I think one company made eight tires, and another one made four. We made four about 2 years ago and had some difficulty, and they were so terrible in service that we abandoned the idea.

The CHAIRMAN. Any other questions, gentlemen?

(No response.)

The CHAIRMAN. Thank you very much, sir.

Mr. Burger, do you have anything further to say before we close the hearing on tires?

Mr. GEORGE J. BURGER. I would like to have noted in the testimony, Mr. Chairman, that you desire to go into the record, that when the floor tax was put into effect by Congress, the independent tire dealer was compelled to pay a floor tax to the Internal Revenue on October 30 on all tires in the hands of independent tire dealers throughout the United States as of October 1.

The independent alone was compelled to pay that floor tax averaging from 53 cents a unit on a tire, to as high as \$7 a tire, where the manufacturer's retail stores, having the same duplicate stocks as a tire dealer, has not paid the excise tax or the floor tax, until that tire is sold to the ultimate user.

In the meantime, the tire dealers, the independents, have paid millions of dollars on October 30 to the Internal Revenue Department, and that money is also frozen and the manufacturer and the retail store has not paid any floor or excise tax and will not pay a tax until Congress eliminates that discrimination. That is all I have to say.

Mr. HALLECK. Where does that come from, the law itself?

Mr. BURGER. The law itself.

Mr. HALLECK. The tax law?

Mr. BURGER. Yes, sir.

Mr. HALLECK. Is there any tax charged on a retreaded tire?

Mr. BURGER. Except that the dealer buying the camel back pays the manufacturer that 10-percent tax which is turned over to the Internal Revenue.

Mr. HALLECK. He doesn't pay any tax after that time?

Mr. BURGER. No; but Internal Revenue permits him to include that in part of his retail price to the ultimate user.

Mr. HALLECK. Have you made a complaint to the Ways and Means Committee?

Mr. BURGER. I had it up at the clerk prior to the enactment of the present tax bill and also it was through the action of Senator Murray's Small Business Committee that I was able to get an extension of 30 days, but the Assistant Secretary of the Treasury wrote me within the last 30 days that if the Ways and Means Committee asked the Treasury Department for an opinion they will be glad to give an opinion as to that.

Mr. HALLECK. As to whether or not the law should be changed?

Mr. BURGER. Exactly.

The CHAIRMAN. Did they say whether they would recommend it?

Mr. BURGER. I believe they are in a sympathetic mood.

The CHAIRMAN. If you will give me a memorandum on that I will appear before the committee. In other words, how many units does the largest rubber company have in retail stores?

Mr. BURGER. As best we can estimate, on the 1st of October the approximate figures of tires in the hands alone of 2,100 company-owned stores was approximately 800,000 units.

The CHAIRMAN. Twenty-one hundred independent stores. He had to pay that tax immediately, but his competitor across the street paid no tax whatever, and has not paid to this day?

Mr. BURGER. Exactly.

The CHAIRMAN. I don't see how that can be justified offhand unless there is something about it—

Mr. BURGER. Another important thing on that question. If and when through the grace of God we are victorious in this war and the Congress sees fit to readjust the taxing program and there isn't some provision made in this law to reimburse the dealers the minute the taxes are readjusted downward, not having paid any tax the company-owned store will have an edge to start with of from \$1 to \$10 a unit on the independent dealer.

The CHAIRMAN. Thank you very much.

Now, Mr. Hale, you wanted just a minute.

Mr. DWIGHT G. HALE. Yes, sir.

There is a movement apparently started by the major rubber companies regarding the thickness of camel back to be used in tire treading. I would like a verification, if possible, regarding the so-called 16/32 on minimum of camel back. In my opinion if 16/32 of camel back is needed to fill up some of the mold equipment it will be an additional waste of rubber, if a smaller amount or less thickness can deliver the same amount of mileage.

Mr. HALLECK. How can a lesser amount of rubber of the same quality deliver the same number of miles?

Mr. HALE. By the method of application. We have proven with the system I use that 14/32 will deliver more miles than competitive equipment using 16/32 more, and we would like an investigation and we will submit proof on that.

The CHAIRMAN. Any further questions, gentlemen?

(No response.)

The CHAIRMAN. Thank you very much, Mr. Hale.

We had a contact with O. P. A. that we want to find out about before we adjourn.

Is there anyone else present who desires to be heard on this subject of tires?

Mr. GEORGE ERLINGER. There is one other point I wish to bring out, and that is that in the last 60 days large manufacturers have put a tax on different material in gross instead of net weights. We are paying a 10-percent tax on cartons. We have to pay 35 cents a pound for camel back, and also for different materials that we use. We feel that is unjust.

Mr. HALLECK. Have you taken that up with the Internal Revenue Department?

Mr. ERLINGER. Yes; and they told us they were interested only in taxes.

In the metropolitan area, taking a quick survey, there are approximately half a million tires in the hands of dealers which are frozen. At present I know of dealers with thousands of tires in washrooms and stores, and every place else, and a lot of commercial accounts today have new tires in their possession and are crowding the recapper of tires and having them recapped and still keeping the others in reserve.

Mr. KELLY. How long would a tire last on a shelf?

Mr. ERLINGER. If the tire was properly wrapped and kept in a certain climate and out of the sun where oxidation won't set up, it will last quite a long time.

Mr. KELLY. You don't know definitely how long?

Mr. ERLINGER. It depends on how the tire is constructed. A reclaimed tire won't last as long as a retread.

The CHAIRMAN. Thank you very much.

Mr. HALLECK. Mr. Girard, did you wish to make an additional statement?

Mr. J. L. GIRARD. I would like to clear up a question asked me by one of the representatives here. It will just take a minute.

Regarding a question asked me in regard to how many tires we would have in stock that were not required by the Army and Navy, I think I told him that we had some tires in stock that I think could be used for that, but I want to say that we have many that I doubt whether they could use at any time.

Mr. HALLECK. I asked that question and it was obvious to me that you didn't understand what I was getting at. The point I was driving at was whether or not included within the freezing order are types of tires that might be used by someone, but could not be used either by the Army or the Navy or by essential users that will be provided for under the rationing order.

Mr. GIRARD. A good percentage of our stock has been bought with the idea of selling to the consumer or the commercial operator.

Mr. HALLECK. Under the rationing order I suppose doctors have all kinds of automobiles. A doctor might have a use for most any tire you had in stock.

Mr. GIRARD. Most of the doctors have late model cars. We also have many tires that will fit older types of cars.

The CHAIRMAN. Thank you very much.

Mr. Raney, do you have an additional statement?

Mr. CHARLES RANEY. Yes, sir.

The CHAIRMAN. Where do you live, Mr. Raney?

Mr. RANEY. In Akron, Ohio, Raney Tire Co.

The CHAIRMAN. You testified this morning, didn't you?

Mr. RANEY. No, sir; I did not.

Mr. Hale said he understood there was a program on foot limiting this camelback size.

I have a letter from my supplier dated January 13, saying that notice had been received by him on January 6. In my particular case I will just take the one-sized tire.

An 8.25 by 20 truck tire, using 14/32 tread rubber, I will use approximately 10 pounds. Now, with the 16/32 I will naturally increase that by about 25 percent. Now, the discussion may come up as to whether or not I can't cut down my widths. That is not true, to get the best out of rubber, because you have to put your rubber width on in proportion to the width of the tread.

In a lot of cases you will not get the good solid tread that you are after, and I think under this program of which, as I say, I have received a copy of a letter from a manufacturer, it will probably cost us 25 percent waste of rubber instead of conservation.

The CHAIRMAN. Thank you very much.

This afternoon we will not have a session. If you gentlemen who have spoken here this morning desire to add something additional to

your remarks, if you will get it to the reporters before 5 o'clock this evening, it will be all right for you to do so, providing it is not too voluminous.

You may send it to room 114 of this building.

Next week's hearing will be announced later.

Without objection we will stand at recess, subject to the call of the Chair.

(Whereupon, at 12:50 p. m., an adjournment was taken, subject to call.)

SMALL BUSINESS IN THE UNITED STATES

MONDAY, JANUARY 19, 1942

SELECT COMMITTEE TO CONDUCT A STUDY AND
INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM
IN ITS RELATION TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.

The select committee met, pursuant to adjournment, in the caucus room, old House of Representatives Office Building, at 10 a. m., Hon. Wright Patman (Texas), chairman, presiding.

Present: Representatives Patman (Texas), chairman; Bulwinkle (North Carolina); Kelly (Illinois); Fitzgerald (Connecticut); Halleck (Indiana); Hall (New York), and Ploeser (Missouri).

Mr. Ira Bird Kirkland, Jr., counsel for the committee.

The CHAIRMAN. Mr. Arnold, I wish you would give your name, official position, and residence to the reporter, please.

Mr. ARNOLD. Thurman Arnold, Assistant Attorney General; residence, McLean, Va.

The CHAIRMAN. That is your post-office address?

Mr. ARNOLD. That is my post-office address.

The CHAIRMAN. This committee is making an investigation and study for the purpose of determining what can be done by the Government, if anything, to aid and assist small business, particularly in the defense program, and also with reference to allocations and priorities. Of course, the resolution is rather broad and covers quite a large field. It can do most anything in the way of helping small business, if it can help small business at all under this resolution. It is particularly our purpose to see that small business is not discriminated against. We want to make sure that although small business will be compelled to suffer in some instances, we want to make sure that they do not unduly suffer, that they are not discriminated against.

With that background, would you have a statement to make to the committee about your views on what can be done to aid small business?

STATEMENT OF THURMAN ARNOLD, ASSISTANT ATTORNEY GENERAL

Mr. ARNOLD. I will discuss what we are doing informally, and I will appreciate any questions. I was called only recently, and I have not any prepared statement. I would, in lieu of a prepared statement, like to introduce in the record a release which the Attorney General gave out on the Small Business Section of the Antitrust Division.

The CHAIRMAN. Without objection, that will be noted.

(The release referred to is filed with the committee.)

Attorney General Francis Biddle today made public a report on the activities of the small-business section of the Antitrust Division, Department of Justice.

Commenting on the report, the Attorney General said:

"The Small Business Section of the Antitrust Division has an important function to perform in our national war effort, and it has performed that function to splendid effect. It is essential, if American democracy is to survive, that the spirit of free enterprise be kept alive and that the rights of the little fellow, whether in business or in civil life, be protected. The Small Business Section is one agency in the Federal Government whose energies are devoted entirely to seeing that this protection is provided."

The full text of the report follows:

When, in September 1941, the Small Business Section was set up in the Antitrust Division of the Department of Justice, its announced function was to assist small-business enterprises on problems arising under the antitrust laws and in their dealings with the Federal Government, particularly in connection with the national defense program.

It was apparent even then that small businessmen were confused and perplexed, were unable readily to gain access to business administrators, and were at a decided disadvantage in dealing with Federal agencies attuned to mass-production methods. Obviously, unless a large segment of our industrial economy were to be permitted to wither and die, some means of assisting small-business enterprises to play their proper role in the national defense effort had to be found. Three compelling factors decided the Antitrust Division to undertake the job:

1. The Antitrust Division already had a staff trained to investigate business problems. Furthermore, the Division had a going organization, located in various business centers throughout the country, which was convinced of the importance of keeping independent enterprise alive.

2. In order to give small businessmen confidence in an organization devoted to their interest, it was necessary to establish it independently of the departments and agencies with which they had business dealings.

3. Independent presentation of the problems of small-business enterprises by an agency or agent devoted entirely to such matters, it was believed, would enable administrative agencies connected with the national defense effort to avoid many mistakes and would, also, assist in the formulation of an administrative policy throughout the Federal Government by which the small businessmen would be assured of sympathetic treatment.

It was not the intention of the Attorney General that the Small Business Section should have any part in making administrative policy; but by investigating particular cases and presenting the facts to the departments or agencies involved, it could point out unnecessary hardships and discrimination and, in effect, help to develop a fair and just administrative policy. In the light of 6 months' experience in handling the problems of small business, it is fair to say that the division was not too optimistic in its expectations.

In the past 6 months, well over a thousand letters have been received from small business enterprises, five out of six of them bearing on some phase of the national defense (now war) program. These fall into two general classifications: Those from small businessmen who have been unable to obtain satisfactory information or explanation of rules, orders, and procedure by defense agencies; and a far smaller number from small businessmen registering protest over what they regard as unfair treatment or unjust discrimination.

Investigation of the first group has developed that previous letters of complaint, sent to the proper agencies, had gone unanswered. With the establishment of new agencies and enlargement of old functions and responsibilities, suddenly and on a huge scale, such delays are, of course, unavoidable. Most of these cases are satisfactorily handled simply by telephoning the proper official in the proper agency, advising him of the letter of complaint, and asking him to attend to the matter in question. At the same time, the Antitrust Division writes the complainant informing him of what steps have been taken in his behalf.

The second type of letter generally necessitates a personal interview with the proper Government official and, frequently, with the complainant himself in attendance. For example, the section is now conferring with officials of the Priority Section of the Office of Production Management on behalf of a small manufacturer of tire and tube repair machinery, in Denver, who made a strong presentation of his case. His complaint was that priority allocations to manufacturers in his field favored the two dominant concerns and discriminated against the smaller ones.

As might be expected, such complaints cover a wide variety of industries. A glove manufacturer in Jamestown, N. Y., came to the Antitrust Division with

an apparent case of discrimination in the procurement of such goods by the quartermaster depot in Philadelphia. At the request of the Small Business Section, the Office of the Under Secretary of War agreed to investigate the complaint and to transmit a full report.

Similarly, a Chicago manufacturer of water-purification machinery submitted a protest against awarding of bids on such equipment for the Huntsville (Ala.) Arsenal. The complaint showed that his bid was for \$14,000 and that of the dominant manufacturer in the field \$28,000. The award was about to be made to the high bidder when the Small Business Section asked for a review of the circumstances. As a result, all bids were thrown out and specifications which discriminated against small manufacturers were revised. The savings to the Government on this and several subsequent awards for similar equipment amount to over \$20,000.

It is interesting to note, in this particular connection, that as a result of information obtained in investigating this complaint the Antitrust Division may institute antitrust proceedings against the dominant manufacturer in this field.

Another fairly typical case involved invitations for bids on 85,000 gallons of paint of a certain formula for the Norfolk Navy Yard. Upon complaint of a small manufacturer, it was discovered that only two large paint manufacturers in the entire country could possibly deliver the order by the delivery date specified. The Small Business Section immediately notified the Navy Department's Division of Contract Distribution, which took steps to revise procedure and specifications so that smaller manufacturers would not be frozen out. There have been many instances of such understanding and cooperation by the War and Navy Departments and the defense agencies.

Frequently it is discovered that Government specifications, drafted perhaps years ago, are so drawn as to favor one or two large manufacturers who are in a position to make prompt delivery on mass-production orders. Such a situation is perfectly understandable. However, the Small Business Section endeavors, in these cases, to prevail upon the departments involved to revise their procedures and specifications so that smaller manufacturers may enter the bidding. Two particularly interesting complaints of this character upon which the Section is now conferring involve laundry machinery and artificial teeth. It is expected in both cases that changes in specifications will be made.

A complaint of an entirely different character was received recently from apple growers in Yakima, Wash. The issue involved here was a labor dispute. The International Teamsters Union had declared all fruit brands of the International Apple Association in the principal Western, Midwestern, and Eastern markets "hot cargo" because of a labor dispute in the Yakima packing plant. After several days of conferences with various departments and agencies, the Small Business Section persuaded the Department of Labor to hold a hearing on the dispute in Yakima. The Section has not been informed of the outcome of this hearing but has received expressions of appreciation from the growers for its efforts in their behalf.

Of course many complaints, upon investigation, prove to be unjustified. One outstanding example is that of a small manufacturer who believed he had been unfairly treated in the awarding of bids by the Navy Department. With the cooperation of the Under Secretary of the Navy the complainant and the head of the Small Business Section were shown the entire record of the bids and awards by the proper Navy officials. When it was demonstrated that the complainant had no grounds for his protest, he immediately withdrew his complaint and expressed appreciation for the sympathetic and understanding treatment afforded him.

As a whole, the contents of letters sent to the Small Business Section are enlightening and revealing. All of them, whether successful in obtaining relief or not, express surprise on finding in the Small Business Section a "friend in court"; unsolicited letters of appreciation run into the hundreds.

It is quite likely that many of the complaints submitted upon more careful and deliberate examination would lead to antitrust proceedings, and the Small Business Section recommends a reexamination of its files. Meanwhile, the Section plans to continue to serve as an agency for the immediate assistance of the small-business complainant. In operation, the Section is more or less like a field emergency hospital during a battle where immediate attention is given casualties pending their transfer to a base hospital. It has been the experience of the section

moreover, that prompt first treatment of the minor "wounds" of small businessmen frequently relieves the necessity for "hospitalization" though, of course, it cannot effect a permanent cure.

The war is going to require more and more allocations, priorities and other restrictions upon small business activities. It is also going to require pooling on the part of small businessmen themselves in order to make the best use of available supplies. Regulations are going to become more and more intricate and the application of these regulations is going to depend largely upon the individual judgments of men in a hurry. This cannot be helped. For these reasons, if for no other, the Antitrust Division believes that the Small Business Section will continue to have an increasingly important role to play in our war program.

Mr. ARNOLD. The idea behind the Small Business Section of the Antitrust Division is a development in a war situation of the same kind of thing that we were trying to do to aid small business prior to the war.

The Antitrust Division in a very real sense has always been a small business section. In other words, we are always representing some new enterprise; some competitor who is being forced out of the market by an aggressive combination against him. It is true that sometimes the aggressive combination might be a trade association in which there were many small business units, but we are always trying to represent the outsider, who is trying to get in the market and is being illegally kept out, and our forum prior to this war consisted of the courts, although sometimes we would represent the small business interests before commissions. For example, today we are representing the independent truckers' interests before the Interstate Commerce Commission to protect them against what we think is the seizure of our public highways by a consolidated group that is going to get control of the transportation.

Now, when the war came on it became apparent that the decisions, the court policy-making decisions on which the small businessman's life depends, are going to be made, to a large extent, by defense agencies. There is going to be the necessity of pooling resources to an extent never known before—allocation of materials, price ceilings, enormous bodies of regulations.

We take no part, nor do we desire to take any part, in the policies of other bureaus. You can confuse the defense effort by too many people trying to run policy. Our function is to represent specific cases of hardship in the application of that policy and to represent them before the boards which make the policy.

I do not think there is anything more important than the representation of specific cases of small-business hardship by an independent agency. Every lawyer knows that you cannot represent both sides, and you cannot sit as a judge and represent one side, and everybody in Washington knows that a small businessman—and by "small business" I mean business that may run into the millions. We define small business, incidentally, as any business which does not have an office in Washington to represent them before these committees.

Mr. KELLY. Or a lobbyist.

Mr. ARNOLD. What?

Mr. KELLY. Or a lobbyist.

Mr. ARNOLD. Well, I would prefer the word "office"—and because, of course, they are not all lobbyists. Some of them are giving a perfectly sincere representation of the facts and figures.

The CHAIRMAN. Well, a lobbyist can be sincere, can he not?

Mr. ARNOLD. Well, it is an invidious terms, and I was trying to represent the—

The CHAIRMAN. Well, can't you use it in an offensive way and also in an inoffensive way?

Mr. ARNOLD. That is right.

The CHAIRMAN. I consider a lobbyist one who represents some person or group in Washington. He can be either a good or a bad lobbyist. I know of some mighty good lobbyists, people who can give you first-class information which will assist you. I consider the offensive type one who tries to make short cuts, engages in sharp practices, who uses undue influence. I think the two types should not be confused.

Mr. ARNOLD. I will accept that and redefine small business as anyone who cannot maintain a lobbyist in that sense, and if you cannot you are helplessly confused when you come to Washington. You do not know whom to see, you cannot get around the corridors, and we attempt to supply that representation.

We started in then without any publicity whatever as the defense agencies commenced to grow, as the priority problem commenced to be acute. Undoubtedly—I have forgotten the exact date, but undoubtedly it was over a year ago, I had a conference with Donald Nelson, and suggested it would be most helpful to the defense agencies themselves if there was someone to whom they could refer a business problem from the point of view of finding out about the rights of an individual, or someone who could present a problem of small business, and prevent them from making a mistake in the hurry of these orders.

You must remember that the Government agencies have got to act fast. Contracts must be let; price ceilings must be put on. There are two ways of doing it. One is to precede the thing with a long and elaborate investigation. That might be all right in peacetimes. It is not fast enough in wartimes. You have got to let these contracts, and put on your ceilings, to make your allocations, to make your pools instantly, and you have got to take the representations of people who are bringing the facts and having the conferences with you at face value, and therefore the only type of release to prevent those things from going wrong is to let the contracts and to pick up the misrepresentations, the distortions of public policy, the use of privileges granted by the defense agencies as a cloak for some subrosa purpose, to pick those things up afterward. The idea is a good deal like income-tax enforcement. Your income-tax blanks are taken at face value, and then, thereafter, somebody checks up, and the misrepresentations are made just hazardous enough so that the great part of income-tax administration goes on in a pretty honest way. That is the same type of thing which I think we have to do in the present emergency, and it requires that somebody be there to represent the cases of hardship which develop out of the application of the policy.

Now, I am giving you just an example of how it works. A man in a small western town, had a plant making manganese. He got all his manganese from the Anaconda Copper Co. The Anaconda Copper Co. was about to get a contract from the Government for the entire supply of manganese. This man was out in Montana. The Anaconda Copper Co.'s facts and figures were sufficient so that there was a question of judgment whether it should have the whole contract. There

was the idea of dealing with a responsible, well financed concern, and this man in the small place might well have been swept out of the picture. He came to see us. Incidentally, it was the small-business committee that sent him over, I am pretty sure. I do not know whether it was this committee or Senator Murray's committee—one of them—came to see us, and we put our machinery to work.

Now, our machinery consists of offices scattered all over the United States, in New York, Chicago, St. Louis, Denver, Seattle, San Francisco, Los Angeles, and we hope to get one in Louisiana, so that by long-distance telephone and wire, with the assistance of the F. B. I., we are able within 24 hours, to inform the O. P. M. as to whether this is a crackpot, or whether it is a responsible businessman. We did that. The O. P. M. was satisfied that his plant should continue, he should make just as much manganese as he wanted, but said the unfortunate thing about it is we cannot help the man out. He has been getting his manganese from the Anaconda Copper Co., and he hasn't any long-term contract. The Anaconda Co. can stop the manganese instantly, and so, whatever we do, he cannot fulfill the contract.

That led to a conference with the Anaconda Copper Co. We did not at that time—we were fair—we did not develop any threat of prosecution, but we pointed out that a monopoly position in manganese might develop most unfortunately. The attorneys for the Anaconda Copper Co. agreed with us. The man is now in business. And when you get a situation, and get the facts of that kind before the O. P. M., you will usually find that you have pretty good cooperation from the O. P. M. The O. P. M. and O. P. A. are enormous agencies, and they do not have the organization developed to take care of that sort of a thing.

The CHAIRMAN. We hear complaints that it is difficult to reach the right party. People come here from a distance, and they want to see the people to deal with their particular problem, and they find it to be a rather difficult matter—and Members of Congress have trouble locating the right party to deal with.

Do you have that trouble?

Mr. ARNOLD. No; we do not, because we know the ropes; and further than that, they know us, and we attempt to sift the crackpots from the meritorious cases. When you advertise for complaints for small business, of course, you are going to get a large number of crackpot complaints. If you discourage crackpot complaints you would not get any.

One of the essential things in representing small business is to treat considerably and carefully the complaints of everybody, and not throw anyone out of the office simply because he has misconceived the whole situation. I do not think that is very well understood. Small businessmen are not economists. They have not kept track of all the developments in the country, and many of them are unreasonable, but if you do not have a place that they can go, someone who had an unreasonable complaint could go back to his community and say "There is no use going down to Washington, they just throw you out on your ears," and you lose the reasonable complaint.

Mr. KELLY. Mr. Arnold, on that point, that is the general complaint of most people I have contacted myself in industrial sections. They come down here, and they cannot find anybody that they can make a complaint to, and then when they do find somebody they say, "Well, it is too bad, you will have to close up and go out of business if you

cannot meet the requirements and readjust your machinery in order to supply war contracts."

Mr. ARNOLD. Well, Mr. Nelson, I think, recognized about a year and a half ago the need for some agency which had had the experience to investigate this particular kind of thing, and that is just what we have been doing, expanding personnel, investigating business problems which would give a representation to the O. P. M. in which they might have some confidence. I think I can see many excuses for the man that is working there about 11 hours a day, over at the O. P. M., keeping people out of his office. He has pretty nearly got to, and he does not have the kind of machinery to sift the individual cases of complaints that we do.

Mr. HALLECK. Mr. Chairman, if I might interject, along the line Mr. Kelly suggested but with a little different experience—I have had a lot of people down here, and whenever I have called up to make an appointment someone has been asked to talk to them. On occasion they reported back that apparently the person they talked to had no authority to grant any relief, and they have been a little disappointed about it for that reason, but someone has talked to them. But I would just like to ask a question of Mr. Arnold, if I might, Mr. Chairman.

The CHAIRMAN. Yes.

Mr. HALLECK. As I noted from your statement, these agencies are doing a tremendous job, and of necessity they work rather quickly on occasion.

Mr. ARNOLD. That is it.

Mr. HALLECK. Do you see anything wrong in a committee, such as this committee that we have, undertaking to check up on the details of some of the orders that are entered down there in that manner, and undertaking to determine the reasonableness or unreasonableness of some of the limitations and restrictions and regulations that are imposed?

Mr. ARNOLD. Of course, it is not only not wrong, but I think it is one of the most useful things that Congress can do today, because there again it follows what I was saying before. We have got to do these things in a hurry, and then we have got to pick up the distortions of policy afterward, and that would fall right along those lines.

Well, in any event, we started out then in a very small way, and I employed Mr. Holcomb to head up the Small Business Advisory Section. The complaints kept coming in. We got to representing more and more people, and the Small Business Section began to expand naturally, and then finally it became, I thought, of sufficient importance that we made an announcement of what we were trying to do. That announcement I made before the American Business Congress in New York. I think that was first announced, on June 13, 1941; and we are attempting to expand the small-business unit fast enough to keep up with the complaints.

Now, the small-business unit works a good deal like this: Mr. Holcomb is the usual Government man in direct contact with the small businessman who comes in. He has at his disposal the lawyers and the economists of our staff, or the lawyers and the economists on the staff might possibly refer the matter to Mr. Holcomb. The investigation is made, and then the case is presented either to the courts, if it is that kind of a case, or to the appropriate agency, if it is a case where the administration agency decisions require, or possibly to both.

The small-business complaints often result from our investigations. We are now investigating the restricted practices in the chemical and the drug industry. That is, we have already leads to about 50 arrangements or contracts or combinations of special design to keep new enterprise out of the field. That is a general investigation of that industry.

Incidentally, in the case of a man from New England—this is a recent case handled for the O. P. M., but I will keep the names off the public record, O. P. M. handled it very well, and I think it would be inadvisable just to throw out that name—although I will be very glad to give the exact names of the people in executive session—this man from New England had a new process for making a very important drug in the defense industry. He could not get his materials from Dupont.

The O. P. M. had not as yet put a priority on that particular material. Therefore, he was just pushed out of O. P. M. in the rush of other matters.

We made a careful investigation of his complaint. We decided that he did have the facilities, that the new process did have merit, and within a week's time we got him all the material.

In the meantime, we are developing the question of the drugs—I mean chemicals and drugs and further restricted practices.

Now, he would not be in existence today if we had not been there, and I do not think it is fair to criticize the man at O. P. M. who did not have the time to get down to that particular plant.

It is most important that we do not make policy ourselves, that we argue before these bodies in terms of the policy which they made, and there is plenty of publicly stated policy in favor of small business. We all know that. That was not true maybe a year and a half ago, when many people thought that big business could take care of all our defense efforts, but today there is plenty of publicly stated policy, so that we go with that policy and show how the particular case fits in.

Now, there are many types of conspiracies developing today, combinations, which, while they have the same objective, are somewhat different than before the war.

Let us take the price ceilings of the O. P. A. That I assume is inevitable, and without arguing the details of any policy—I am assuming the bill is going to be passed, a bill is essential—that is the assumption we are going on, and that price-ceiling imposition creates new attempts to get into conspiracies.

Now, I want to be perfectly clear, since I was misquoted before the Military Affairs Committee, that this does not mean I am not wholeheartedly in favor of price ceiling, but it does create the temptation to enter the new type of conspiracy.

The types of conspiracy we now find will be, first, the group of businessmen that get together in a hotel room, and say, "Now, we are going in conference with O. P. A. Let us all stand together. Don't you get offside. Don't you—you leave those facts out. Let us all stand together and we will get a decent price ceiling which won't hurt anybody"—almost the identical kind of conspiracy which you find frequently among common carriers when they are all joined together to prevent a rate before the Interstate Commerce Commission.

Mr. HALLECK. Is it fair to always characterize that sort of operation as conspiracy?

Mr. ARNOLD. No; it is not.

Mr. HALLECK. Because I have some peppermint-oil producers from my district; farmers, in my office, and we kind of talked the thing over. They talked it over and over, and among themselves, and I sent them down to the Department of Agriculture, with somebody going over there with them, in their meeting with O. P. A. to determine a price ceiling on peppermint. I would not call that a conspiracy.

Mr. ARNOLD. No; you should not. In other words, the price ceiling is going to be fixed.

The CHAIRMAN. It is not a conspiracy when men get together to talk.

Mr. ARNOLD. This we are talking over now is not a conspiracy. But I want to point this out, that the conference method of fixing price ceilings is about the only way you can do it, and today is the recognized procedure in O. P. A., and an informal price ceiling is put on almost immediately after a conference. This is the kind of thing which we are trying to guard against.

The sulfuric-acid group—I won't give any names in the record—found themselves confronted with a tremendous oversupply of sulfuric acid. The reason they found themselves confronted with that situation is that TNT uses high concentrated sulfuric acid, and the byproduct, the spent acid, is the very kind of acid that is used in fertilizer, as you all know, not the acid itself, but some derivatives, probably the most important combination in fertilizer, and as this group probably knows also, we have had a long investigation, and a large number of indictments for fixing prices in fertilizer. It is regarded as one of our important investigations.

This spent acid threatened to break the market. Farmers might get a little cheaper prices for their fertilizer because of the spent acid, so it was suggested by the trade group that they be allowed to cut down the production of ordinary sulfuric acid, so that this new byproduct of TNT would not ruin the market, and we suggested that we saw no reason why the farmers should not have the advantage of those lower prices.

Well, in any event, that group, through the conference method, obtained a price ceiling of the quoted price of last year. Now, the quoted price of last year happened to be 20 percent more than the actual price, and that would be all right. There is one of your quick, necessary price ceilings, excepting that by a very curious coincidence the actual price goes up to the quoted price and the ceiling becomes a floor, and that kind of a situation, when presented to us, looks very queer, and that is the typical thing that we investigate. I wish to make no charges now, in the beginning of an investigation of that situation, but that is the type of situation we step into.

Mr. HALLECK. Isn't there always a tendency, when you fix a ceiling, to have that become the floor?

Mr. ARNOLD. In a time of scarcity; yes. If you have an actual scarcity of product, then the ceiling becomes the floor, but the curious thing about sulfuric acid is we have too much of it instead of too little.

Now, the second type of conspiracy—

Mr. PLOESER. Did you by any chance go into the alcohol situation, which is somewhat similar?

Mr. ARNOLD. May I—inasmuch as every time I announce I am going into something, great alarm is set up by a lot of industries—may I suggest that I would be delighted, in executive session, to give a whole

list of everything we are going into, but I do not want to have 50 people from this industry or that industry come in town before we are ready to see them, so that I would rather state what we are going into in executive session, if you wish to know. I shall be delighted to tell you everything we are doing in all of our investigations.

I would only say that as yet we have announced no investigation in alcohol.

Well, let me go ahead with the different types of conspiracy which we strike a price ceiling on.

A price ceiling is put on on a scarce product but, of course, any scarce product automatically—nobody is going to sell under the price ceiling, you do not need a conspiracy to know that. You see, the price ceiling there is just clamped down on these ordinarily—having been very rapidly rising prices. Well, the conspiracy usually consists of a small group attempting to keep others out of the market. A small group attempting to keep new enterprise out, to keep a less efficient system of distribution going. You see, a price ceiling is necessarily based on cost plus, and if you take milk as a typical example, there is in existence in many cities, by virtue of strong-arm methods, a situation where stores cannot get cheap milk. Store delivery is boycotted.

Now, you put your price ceiling on your bottle delivery, where the consumer, where low-income groups are getting an unduly expensive, inefficient system of delivery, only allowed one bottle and, of course, it is going to be much higher than if you put it on a store delivery, but there is not store delivery, because store delivery has been kept out. So you have that type of conspiracy.

So that the function of the Antitrust Division in all of those situations is to take particular cases, present them to the O. P. M., or to the O. P. A., and have them apply the policies which apply to those cases, not to be concerned with formulating the policy itself, and I think it is the only protection which small business can have in the operation of a policy.

Now, this committee has been talking a good deal about rubber tires. I would not suggest, because I do not think a prosecuting officer should suggest—I would not make any suggestions as to what should be the policy with respect to the needs of tire dealers, who are here going to be affected by the shortage, but whatever policy is put in, then I want to protect the individual man who is not getting a square deal because of the hurry, or because of lack of representation. The real difficulty of a small businessman getting a square deal is more often just lack of adequate investigation, lack of ability to present his case, lack of skilled representation, than it is any ill will on the part of any of the great defense agencies.

The CHAIRMAN. Directly on that point, Mr. Arnold, we had information that some of the large tire manufacturing companies, the manufacturers, some of them that have retail outlets themselves, were furnishing their own outlets, camel back, and other necessary ingredients to recap and retread tires, and will not furnish the competitor across the street, although this competitor has in the past been a customer of the manufacturer.

Have you had any complaints like that?

Mr. ARNOLD. Yes. That is our most frequent type of complaint.

The CHAIRMAN. Don't you think that should be looked into?

Mr. ARNOLD. Those situations are immediately looked into. Let me speak of something in the past. For instance, the way the oil shortage was handled. When the oil shortage was announced, immediately from all over the country we had hundreds and hundreds of complaints of independent dealers and filling stations whose contracts were shut off immediately.

The CHAIRMAN. And they kept their own retail houses?

Mr. ARNOLD. Now they always will.

The CHAIRMAN. Well, did you do anything to stop that, Mr. Arnold?

Mr. ARNOLD. Well, that was stopped within 3 days' time. It was called to the attention of the Office of the Petroleum Administrator. The facts were developed, and we got the individuals their gasoline. Now, that is a very different thing, to get an individual his gasoline than to get a statement that our policy is to get individuals gasoline.

Mr. KELLY. Mr. Arnold, the oil shortage, so-called, was not actually a shortage. It was a question of transportation.

Mr. ARNOLD. All right; but the thing that we were doing was not deciding whether the order was right or the order was wrong. We were presenting the case of the men who were unjustly hurt by the order. If we ever got into the policy we would blur our entire function. We are the only organization in the Government who can do this kind of thing, and we can do it all right if we let the other people decide the policy and we represent the cases. There are many lawyers on this committee, and I think you know that one of the best ways to develop a policy logically and carefully is by the case-by-case method, so I think the cases we present, the cases of hardship, do have an effect on policy by calling the attention to certain things that are happening, and because of these regulations, should happen, that we have no hand in policy.

Mr. PLOESER. Mr. Arnold, we are concerned with the situation now where the company-owned tire store in a big city—and they are only located in the big cities—may curtail the camelback and retreading process to such an extent that we will not only crush the small man who does that job but will crush the facility which is going to be needed throughout the Nation. It has a twofold sinister result, puts the small man out of business, and injures the public and the governmental need of this service in its complete distribution throughout the industry.

Mr. ARNOLD. Well, now, with that suggestion as a start, let me tell you how the Antitrust Division would come into that picture.

We would not go before the O. P. A. or the O. P. M., or anybody, with respect to their policy on rubber tires, but suppose a group of particular businessmen came in and said, "This is what is happening to us because of the present shortage." We would immediately investigate the fact and the figures of that particular group. We would find out who they were, how much they had in the way of tires, what their finances were, the importance of their situation. We would get those facts together as quickly as possible, and present the interests of that particular group to the O. P. M. and the O. P. A.

Now, that is a very different picture, when you look at things that way, than when you are looking at things through statistics, through reports, through spectacles, to take in the whole world, and we would

attempt to get their position before the O. P. A. We would not come in there at the stage where they were examining general reports.

Mr. HALLECK. The chairman has raised this matter of the failure of big companies to supply retreading materials to the independents.

Do you have any information that that charge is true, in fact?

Mr. ARNOLD. We have a great deal of information about the rubber situation.

Now, we have a grand jury investigating the rubber and the oil situation, some of which is very interesting. I would say that a prosecuting officer, always representing case by case, is always a little in a peculiar situation testifying before a public hearing. I would, of course, give you—

Mr. HALLECK (interposing). I recognize that.

Mr. ARNOLD. I would give you in executive session; or I will give you anything I have got in a public session on subpoena. I just do not like to volunteer information which may throw particular cases.

Mr. FLOESER. If you don't mind the comment, I think probably in this question of retreading tires, a great deal of that responsibility is going to fall upon your Department. I cannot see where in the present system of priorities, for example, there is any way for O. P. A. or O. P. M. necessarily to have the complete distribution of this rubber supply that is going to be necessary; the policy, it seems to me, necessarily, must be to give the rubber companies to understand, in order for them to give complete cooperation, that they must not be restrictive in distribution.

Mr. ARNOLD. Of course, I shall thoroughly agree with that, that the great majority of businessmen are patriotic; but if you create a situation where aggressive unpatriotic conduct pays big dividends, why those people will be in the center of the picture and making the most money. More than ever you need to make aggressive and reckless domination of markets hazardous in time of war. That has been shown in every single war. We are often charged with disturbing national defense because we, whenever we get the evidence, stop the practice. All I have to do to stop one of those practices is to get a couple of letters to the people and they are in there pleading that we just forget all about it and they will stop their practices.

My position is that if we are going to have any enforcement effect to the antitrust laws or to any law representing small business, we have got to go ahead and push those cases to a conclusion, because we pick up in 1942 what they were doing in 1941. If those kind of conspiracies are indicted, then the people in 1942 realize that it is dangerous. If we just simply let them all go and say: "Now, they have stopped the practice," we practically serve notice on business that you can go ahead and enter into a conspiracy, and, then, if you are caught, all you have to do is to stop; and that is part of the psychology which we are citing against.

I am willing to stop any prosecution if any responsible Government agency will give me reasons in writing why it interferes with national defense, and if they will take that responsibility; I do not care to be the sole judge. That works out very well. So far only one case has been stopped, and the reasons are there in writing. Anybody can examine them; and the record is clean, and you won't get very many stopped. Now, when it comes to the argument that we

are taking up in terms of individuals who might be engaged in the industry, again I will say I will continue or postpone any case if the time of the witness is such that it will interfere with national defense; but I say I wish you would listen to me before you issue this order, and let us look specifically and find how much time and who it affects, and it usually boils down to about 2 days of somebody that does not get down to the office very early in the morning anyhow; and we have never yet been compelled to postpone a case for that reason. If it did take up the time of someone actually, some individual, who was engaged in actual Government orders, I think that would be a perfectly legitimate reason for postponing it. So I am not concerned about that. I do not wish to stop cases of prosecution on the vague psychology that by tying these people up you interfere with national defense, because I think that people engaged in that conspiracy should be sufficiently bothered so that they would not do it again.

Now, I have talked a good deal. Might I call upon Mr. Holcomb?

Mr. BULWINKLE. How many agencies, Mr. Arnold, of the Government now are holding out in behalf of the small businessman?

Mr. ARNOLD. I would say all of them, and I do not know, since the small business problem has reached the level of public consciousness, due greatly to the efforts of this committee, everybody is wanting to do something about the problem. I have a rather peculiar contribution to make, and that is the case-by-case method of representation, and, of course, I welcome any other agency that sets up boards.

Mr. BULWINKLE. Well, is there any cooperation between these various small business agencies of the Department?

Mr. ARNOLD. So far I can only tell you my own experience, so far as I have been able to find out, whenever I have got good, meritorious cases I got good cooperation. Get the thing in writing, get the thing prepared, I have got cooperation with all of these agencies, and I am just—I am about to take a case to the Maritime—represent the Maritime Commission, or the Department of Agriculture, or the Department of Commerce, or O. P. M., or O. P. A., and what we try to do is to get the facts. We do not go to them with any general complaints. When we get the facts—for instance, just the other day a shipbuilding concern out at St. Louis—I won't give the name—was asked to make some bids on very important parts of ships. The old ship concern had the inside track because they had this vast experience with Government plans and specifications. The new concern just did not know how to bid at all, and I understand that is an extremely expensive thing, for a new concern to get into the game of bidding. However, the old concern was loaded up to the guards, the new concern had to come in, and they had to get this information. The old concern was going to charge them, I think, 5 percent for 10 years for showing how to make the bid. The reason that they were going to make that charge was that they wanted to put on them a competitive handicap in the future.

The great tendency of an established business—and you can be critical of this policy without being critical of the individuals—the great tendency of the other bidders is to say: "We do not want a lot of new enterprises in this field that is going to lose us business after the war, so let us keep control either by long-term leases or by provisions that somebody else goes out of business after war, or by dis-

advantageous contracts after the war, as the result of our informing these people how to bid, or by a straight conspiracy, to dominate. We must dominate this business after the war."

Now, what is the result if you allow that?

Let us take zinc, for example. There a concern who had patents on zinc was willing to license new enterprises to make zinc with a provision that at the end of the war they go out of business.

The CHAIRMAN. Do you mean O. P. M.?

Mr. ARNOLD. No, no; O. P. M. did not do this.

They had the patent licenses. This does not have to do with O. P. M., they had patent licenses, and that is the terms on which they were willing to let new enterprises have it.

There is an Antitrust Division investigation of that.

Now, what kind of initiative can you expect out of new enterprise that is forced to go into business only as a temporary expedient, and has to go out after the war? In the first place, he has got to double the price to the Government; in the second place, he cannot have his whole energy, his whole heart in it under those circumstances.

Another great concern making a basic material, was asking the Government to put a provision in the contract that they could maintain control of the plants built by Government financing and shut them down when their price dropped below a level.

The CHAIRMAN. May I suggest, Mr. Arnold: You mentioned something in your report about some of the concerns retarding national defense, because of their fear that the expansion program might interfere with them, and I want to ask you particularly about the iron-ore business.

Down in Texas we have what is known as brown ore. They have been trying to get it developed for 50 years. It has been proven that you can make steel there cheaper than any place in the country. You can put the mill right on top of ore beds; you won't have to transport over 6 miles from any one point. By way of the Great Lakes it is transported a thousand miles, and over two railroads. It is very expensive, and they are vulnerable up there, and although our people, at great expense, have made a wonderful case, a perfect case, and they have cleared it through every bottleneck in the O. P. M., yet there is something holding it back, something retarding it; they cannot get a final decision, cannot get any answer or criticism that will justify delay.

Every point that has been raised has been explored and has been conclusively answered, and no one can say that it is not a feasible, desirable project, and that it should not be done; yet we just cannot get it done.

Mr. ARNOLD. Well, that is the kind of case we would like to investigate.

Of course, you know, the tendency here is to give you a case which is a matter of public record. The farmer in Pueblo, when he wants to buy a keg of nails made in Pueblo, pays the freight from Chicago to Pueblo. I mean, the price is Chicago plus, so that the farmer pays more for his nails. The Chicago concern can sell cheaper within 10 miles of Pueblo. That is just a matter of keeping the Pueblo plant from going ahead too fast, so as to destroy the domination.

The CHAIRMAN. Do you mean the Pueblo steel plant?

Mr. ARNOLD. Yes; the Colorado Steel & Iron, I think, but in any event, the Pueblo steel plant—of course, the whole development of the steel industry, as you know, has been the attempt of the large concerns to dominate it. It is the natural thing for people to do. I do not know anything specifically about your iron case in Texas.

Mr. HALLECK. Taking advantage of the freight rate added to cost runs all through our economic system.

Mr. ARNOLD. The basic-point system, I think we have practically got rid of the basic-point system in potash. The basic-point system is one of the methods by which domination is maintained of an industry—it is just one of the many. Of course, there is nothing illegal per se in the basic-point system at so many basic points, if the basic-point system is really just a convenient method of figuring freight; but if the basic-point system is a convenient way of dominating the market—

Mr. HALLECK. I know all over my country, in Indiana, limestone, crushed-stone business, they compete with big business and ship it in there. If they could not take advantage of that freight-rate differential, they could not operate. The big companies would take it all.

Mr. ARNOLD. Well, I do not know that situation, but one of the methods of control is the basic-point system.

Just what the situation is down in Texas, I do not know.

The final point I will make, and then I will close, because one of the unfair things about the Government is that I get my information through the people who are actually doing the work, and the people actually doing the work sit by quietly, and I explain the whole thing. I would like to have Mr. Holcomb explain—

The CHAIRMAN. I know, but let us ask a few questions.

Would you like to ask a few questions, Mr. Bulwinkle?

Mr. BULWINKLE. No.

The CHAIRMAN. Mr. Kelly?

Mr. KELLY. I would like to. I do not know whether it would be an opportune question.

Mr. ARNOLD. Well, ask it anyhow.

Mr. KELLY. Well, on the Government contracts, in the building of Government projects, they were all let on cost-plus basis, of course.

Mr. ARNOLD. Not all, but many.

Mr. KELLY. And then the subcontract was let originally on the competitive basis.

I had a case down in the War Department as early as the 10th day of July, where there was discrimination against a corporation that bid on some of this work, that was told the day they submitted the bid that they were just wasting their time, and it developed that they were wasting their time, because it happened to be low, of supplying cable to this plant; and when the man brought it to my attention I asked him if he would be willing to go down to the War Department and stand upon what he told me.

He said, "Yes," which he did. And we did discover down there, when the hearing was held, when this contract was subpoenaed in there, and also the Army engineer in charge of the bids on the job, that he was \$2,500 low on the bid, but he did not get the contract until after the disclosure was made, and then they gave him 65 percent of that contract, on the undelivered portion of the material which had not

been delivered yet. That was just one case that I knew of where a man went all the way down the line and stood up for his rights; but my attention has been brought to many cases, and then you will ask a man, "Well, would you come down here and render a complaint where you should render it?" He will say, "Well, for business reasons I cannot do it."

Mr. ARNOLD. One of the important things—I am glad you brought that out, because one of the important things we are trying to get into the heads of these businessmen is that a complaint to the Department of Justice is absolutely confidential. No one who comes to us will ever have the fact that he has complained released to anybody without his consent, and our technique is to get the facts, to see what kind of a case he can develop, and then we can tell him it is perfectly all right to handle this thing because we are in position to protect you, which is perfectly true; if they have to complain to a public body, or if they have to make a complaint to a group which contains maybe some representative of one of the industries they are afraid of, you practically shut off complaints, and I have not brought out the fact that the Antitrust Division could not run at all, could not operate any of these things, if they did not receive and sift complaints. No one can ever get out of us who our complainants are and what they complain about unless the case happens to justify it.

Mr. KELLY. Mr. Arnold, I presume you have probably had some complaints about scrap-iron business?

Mr. ARNOLD. We have an investigation going on on scrap iron now. I expect there will be a grand jury. I cannot tell you right now whether we have actually called the grand jury or not, but the O. P. A. sent us scrap-iron information, and we are going ahead as far as we can on that.

Mr. PLOESER. May I interrupt at that point, because it is on scrap iron? Would you care to discuss it today?

Mr. ARNOLD. There is no reason in the world why we cannot discuss scrap iron. One reason we had better not is, I think, there are 220—now, some 175—investigations pending in one State or the other, and I may just happen to be wrong. I would be delighted to bring that out, to have Mr. Holcomb bring out the situation on scrap iron; I would be delighted to bring over any of our investigations. That has been announced so I do not have any hesitancy in talking about it.

The CHAIRMAN. The way it looks, I have several questions to ask you, and possibly we will take up the next hour; but if it is agreeable with Mr. Holcomb and these gentlemen you suggest, we can have them this afternoon. It would not be necessary for you to come back.

Mr. ARNOLD. One of the difficulties is that our men are so scattered. You see, I have—in order to give you the information on scrap iron I would have to get a man in from Chicago for you.

Mr. PLOESER. Would Wednesday be a good day?

The CHAIRMAN. What about Wednesday? Would that be a good day?

Mr. KELLY. Yes; that would be all right.

Mr. PLOESER. The committee is anxious to get started.

Mr. ARNOLD. To give you the set-up, I have 65 men in one office and 30 in another office; the men are on the coast; they are in Chicago. They are the fellows who know most about it.

The CHAIRMAN. Well, we will tentatively fix Wednesday morning at 10 o'clock. If he cannot be here, notify me, and we will make other arrangements with the committee.

Mr. KELLY. I think maybe Thursday would be better.

The CHAIRMAN. All right, Thursday.

Mr. ARNOLD. I might suggest this, if the committee is interested, if you would have an executive session I would tell you everything we are in, then you could decide on what you would like to bring out in public session.

The CHAIRMAN. That is fine.

Mr. ARNOLD. It might save a little time.

The CHAIRMAN. Well, we will have an executive session, then, Wednesday. We will ask you to be here Wednesday, and we will have an executive session in room 114.

Have you any questions to ask, Mr. Fitzgerald?

Mr. FITZGERALD. I would like to ask Mr. Arnold a question. I am interested in these complaints this morning—is the same investigation being made of complaints on zinc?

Mr. ARNOLD. We had a grand jury on zinc.

Mr. FITZGERALD. And shipbuilding?

Mr. ARNOLD. The grand jury failed to bring any indictments, and we are still in it on the civil side. That is one of our older investigations. We are investigating copper, we are investigating at least to some extent all essential war materials, and then on the civil side we are trying to get, at least to some extent, all the necessities of life; that is, war material, food, fuel, drugs, and housing. That is, in general, our program.

Now the great question is in all those investigations, How much manpower have we got? Curiously enough, we lost 30 men in the last 2 months, some of them in very key positions, to the Army and various other agencies that had a prior call—got just part of them. So we have been limping along until we get those men replaced.

Mr. FITZGERALD. I would like to say the information which has been introduced before the committee today is alarming; that big companies have gone into an agreement, the same as in zinc, the same as shipbuilding and all the rest of the strategic materials the Government needed. We haven't got them—and we have only been in the war for about a month—it should be brought to attention through your department to the public throughout the country.

I think there will never be a crystallized public opinion until it is brought to public attention, the deals made between big companies and the freezing out of small businessmen from going into the same line of business. I do not believe the people realize in general what has happened and what transpired.

I read your report, and I have heard other testimony that you presented before the Military Affairs Committee in the past.

I tell you, as an ordinary citizen, I was astounded at such a condition that would exist or could exist in this country. I think your

Department is doing a fine job, and I think that the quicker the public will realize just what has happened in the past, and while we have not got the materials that we really need, such as rubber, tin, manganese, and all the rest of them, that it will be information and will crystallize public opinion in this country and place the blame right where it belongs, and, in my opinion, what we should buy is about a hundred machine guns and go out and shoot about a thousand of these fellows:

Mr. ARNOLD. Well, I appreciate your support. I want also to present this other part of the picture. I suppose the blame for our monopoly situation falls somewhere on the American people that let it develop, and we also have got to look to the future.

I find, for instance, that if we can take a case to O. P. M. and get immediate results, it is sometimes not advisable not to make it public. For instance, here, the board of directors, thinking that maybe this is the thing they ought to do, maybe the wails suddenly stop, and if every time one of those cases were presented there was complete publication, it might interfere with some of our effectiveness, so that what we make ordinarily public are the cases we indict; and where we do not operate through an indictment, we are willing to accomplish our results without any unnecessary publicity.

The CHAIRMAN. Have you anything further, Mr. Fitzgerald?

Mr. FITZGERALD. I am finished.

The CHAIRMAN. I want to ask two or three questions before we hear Mr. Holcomb.

Why is it your Department has never filed any criminal complaints under the Robinson-Patman Act?

Mr. ARNOLD. Well, I presume that the answer would be twofold, one that they are difficult to establish, a complaint under the Robinson-Patman Act, to show that a competitor is injured. It is a difficult complaint. The second, that nobody—I do not say we have not ever got any—I am trying to think if we got any. Nobody comes to us ordinarily with complaints.

The CHAIRMAN. Under that act?

Mr. ARNOLD. Under the Robinson-Patman Act. Third, when it comes to us, we just are always loaded up with investigations of the character we have given you, and we have never had—we have never taken a set of men and said, "Work on the Robinson-Patman Act."

The CHAIRMAN. The Federal Trade Commission has been handling that.

Mr. ARNOLD. So it is a very difficult case.

The CHAIRMAN. It was not a part of the original law. Senator Borah put that in section 3, in the Senate, and I concede that it is somewhat vague. I just wondered if there was any particular reason outside of that.

Mr. ARNOLD. None. When we announced our policy, that we were going to remove restraints of trade, on the distribution of necessities, and that kind of thing, that we were going into housing, food, fuel, drugs, and all those particular necessities, we just more or less left it to Federal Trade, not that we had to, we just did.

The CHAIRMAN. But if a good case were presented to you, you would proceed?

Mr. ARNOLD. It would be our duty to.

The CHAIRMAN. That is right. Supposing some little fellows have a meeting. I wrote you a letter about this—and the whole object and purpose of their meeting is to say, "I will take so much," and the other fellow will say he will take so much and the other fellow so much, so as to get a large quantity purchased in order to enable the group to get the benefit of a quantity-discount rate.

I have understood from statements you have given out, and not directly from your reply to the letter, that that would be a violation of the law. I cannot understand why that would be a violation of the law.

Mr. ARNOLD. It is not necessarily a violation of the law, but we hit this thing afterward, I mean hit these cases after they occur, and practically all these conspiracies are meetings of that character.

In other words, to give you an example of a case we prosecuted, we prosecuted the lumber people. What they were supposedly acting together for was to establish a grave-marking system.

The CHAIRMAN. But that is where they turned it into something else.

Mr. ARNOLD. Yes.

The CHAIRMAN. But where they are needed solely for the purpose, and the testimony shows that that was the only thing they did, was to pool in order to get a better discount rate so as to better compete with their competitor who is buying in huge quantities, it occurs to me you could not find any violation of the law.

Mr. ARNOLD. I do not think we have any case we prosecuted about that, but when you try to make a public statement putting a particular badge of safety on any particular kind of meeting—that particular problem has not come to me, come to my knowledge, but I will give you a very simple problem. The question of joint advertising. A number of retail merchants have been constantly after us for a general public statement to the effect that a group of merchants in a town can get together and advertise a sale at this group of stores. You can sell, well, all sell meat for 12 cents or practically 12 cents.

The CHAIRMAN. National brand articles at the same price?

Mr. ARNOLD. This is just sale usually at lower prices, and they say, we have got to do that in order to compete with our larger competitors. We say to them, you bring us in a specific case from Louisville, or Cincinnati, and we will do one of two things. We will tell you under the circumstances it is reasonable or unreasonable. We will make no general statement because it all depends upon the particular situation.

If this is a group of little people, and if, as a matter of fact, this thing is a combination necessary for them to compete with the chain-stores advertising, we will send a man out to Cincinnati, and we will tell them that we have no intention of criminal prosecuting—I could explain in about 15 minutes, our method of handling those cases, if you want me to. I do not want to take up too much time.

The CHAIRMAN. Would you gentlemen care to hear it?

Mr. KELLY. Yes.

Mr. ARNOLD. Businessmen are entitled to clear specific ideas of what is going to happen to them, if they enter into some sort of a combination. We have no alternative, as a matter of law, to tell anybody finally what the law is, or whether a particular combination is illegal.

We do have the authority, however, to prosecute or not to prosecute, therefore we have adopted this procedure. If you two gentlemen come to me in advance, and say I want to put such and such a cooperative scheme of advertising in Cincinnati, I will look at your scheme and I will tell you one of two things.

I will say it is either—I have no intention of prosecuting criminally, or I will say I will prosecute criminally. If I say I will prosecute criminally, I had better be very sure of the law, before I go ahead. If I say I won't prosecute criminally, then if you choose to go ahead, there will never be any criminal penalties on your back, and the only thing that will happen to you is that in the future, some time or other, I may bring a civil injunction to stop you. That is all based on the idea of the *Appalachian Coal case*.

In the *Appalachian Coal case* the coal operators did, in a situation such as you described, with chaotic conditions in the coal industry, get together and very frankly attempt to get better prices for this particular market agency. The Government opposed it. The Supreme Court held that because they only represented about 3 percent of the coal, that it was not an unreasonable restraint of trade, although it was a restraint of trade, but the Court said we will hold this case on the docket. The case will not be dismissed, and if by some economic change in the circumstances, this marketing agency does get in a dominating position, the Government can then come in and put the case to us.

Now, it is almost impossible for us to define just when they get in that dominating position, but we remember that on the civil side there is no penalty, so that if your scheme has been—if we have told you that we see no reason for a criminal prosecution, then you just keep it up until we tell you to stop, and you agree, or some court tells you to stop, and there is no penalty condition—in other words, many schemes can be given, what I call the test of performance, is it going to work out in restraint of trade, or isn't it, and that is the *Appalachian Coal case*.

Now, we establish that principle for the very obvious reason that we could not prosecute criminally anybody anyway if we had come in and acquiesced in your plan.

We prosecuted the moving-picture industry on the civil side of that docket because for years they had been coming in and telling the Department of Justice what they were doing. We brought a civil proceeding against the Pullman Co., which we regard as one of the very worst restraints of trade now existing, because the Pullman Co. contract had been approved by the I. C. C. As a practical matter, we are not attempting to prosecute anyone on the criminal side of the docket before a jury if he can show the Government acquiesced in it, so that some other attorney general who came along might disagree with us about it, but he would nevertheless be bound by that policy.

Now, the policies announced in a release which I got out with respect to our prosecution of the railroad companies, civil docket, for maintaining joint rates with, or refusing to allow their rates with motor carriers, there, I thought, was an obvious restraint of trade. Nevertheless, they had been into the Department long before I had come in there, and the Department had apparently acquiesced, so we are on the civil side of the docket.

So that as a practical matter, while I will not make a public statement as to just when any matter comes on this line or that, if someone will bring his group in, I will tell them that in Cincinnati, we think that that is not going to unreasonably restrain trade, we will give it a test performance, and I am trying to keep that policy as much on the case by case method as I can.

The CHAIRMAN. In other words, if the proof were to show that in Cincinnati the chains, and the small independents were pretty well balanced, if the independents representing 50 percent were to get together for the purpose of advertising to meet the competition of the great chains which represent 50 percent, and you were convinced that was their purpose and not for the purpose of raising prices to the consumer, you would have no objection to it?

Mr. ARNOLD. Will you pardon me if I answer that question more cogily? Mr. Edmonds has given a great deal of thought to that particular case. He is now preparing a memorandum for me. I do not want to say anything that would interfere in any way with the memorandum before it gets to me. I will say, if you would come in with a case we would do one of two things, we would say under the circumstances this is reasonable, or not. You would immediately find out where you stood, and in the interest of a memorandum on the subject, which I have not seen, I would not like to say more than that.

The CHAIRMAN. That is all right. But suppose this little fellow does not have a representative here in Washington to come to see you? He is way off in Texarkana Tex., or away off in Nevada.

Mr. ARNOLD. Well, he ought to write to our closest office.

The CHAIRMAN. Or he could write to you and do it by correspondence.

Mr. ARNOLD. Do it by correspondence.

The CHAIRMAN. Rather than personal interview.

Mr. ARNOLD. May I say with respect to that, we are going to get jammed up—at present we haven't been, but we are going to get jammed up so that we have a great backlog of these little business complaints.

We are going to get them. The only thing we can do is to expand the personnel. I believe, however, in expanding personnel as the need arises rather than to make an announcement that we need a thousand men. In other words, you can build a better unit by starting small and growing than by taking a couple of hundred green men.

The CHAIRMAN. I agree with you.

Now, one other point I want to ask you about—synthetic rubber. Has there been any effort, or do you have information that convinces you that there has been any effort made to keep down the production of synthetic rubber in the past?

Mr. ARNOLD. Yes; and I will be very glad to present that in executive session, if you want it.

The CHAIRMAN. Then we will do that Wednesday.

Now, if it were within your power, knowing the small-business problem as you know it, and in this emergency what would you do to aid and assist the small business, that you are unable to do now, or that any Government agency is not doing or is unable to do now?

Mr. ARNOLD. I think, in general, small business can be assisted with regard to general policy to the greatest degree by committees such as

yours. I think that you represent small business; in other words, your sole interest is in small business and therefore you might even go too far in favor of small business, but small business needs that type of representation, and that is the kind of representation that will inevitably have an effect on the policy making, and already has had an effect on the policy making of the Government.

I think that the only function that I should seek to perform is the same old function the antitrust laws have always sought to perform, the representation of case-by-case incidents of hardship on small business in seeking the help of individuals and seeking to develop policy in that way.

I happen to be a firm believer in the common-law method of developing policy. I think it applies just as well to the decisions from the O. P. M. and the other, between the two sets of undertakings, which will present the small business side of general policy, and my effort which will present the side of particular cases.

We are doing what we can to help small business in the present emergency.

The CHAIRMAN. All right. Are there any other questions, gentlemen?

Mr. BULWINKLE. Suppose it is the opinion of this committee that the policy is not as we think it should be to meet the situation, then what should we do?

Mr. ARNOLD. Well, this committee is closer to Congress than any other small business committee, than any other committees are. This committee, in other words, has power to open up that question of change of policy. In fact, that is what gives you your power, the fact that you are Congressmen.

The CHAIRMAN. The power to subpoena witnesses and get information?

Mr. ARNOLD. Yes; if you were a member of a trade association you just could not have the power.

The CHAIRMAN. Are there any other questions?

Mr. FITZGERALD. One more that I would like to ask. Mr. Arnold, you can answer it, if you want to today, or you can answer it in executive session, if you prefer.

I am deeply concerned about the testimony, both in your report and in the testimony you presented before this committee, in regard to zinc; that is, agreements that are made to try to keep out the small man, to shut off the development of strategic materials, and so forth.

Would you want to say if you believe that has interfered with the defense of our country?

Mr. ARNOLD. Well, I have been always a real extremist on the subject. I have felt that the monopoly, or that the restraint of trade, the private seizure of economic power is at the basis of a whole lot of the lack of preparedness of all the democracies.

We got into a frame of mind where we capitalized and paid dividends on restraint of trade. So did England. So did France. It is an economic disease which sometimes occurs from time to time in all civilization.

Germany reached that same stage and it got so bad that they had a revolution, and got in their present situation of economic power, and

I believe that one of the things that the war is going to do is to wake people up to what those restraints of trade have been doing, and I am an optimist on the subject.

Mr. FITZGERALD. Mr. Arnold, that is just what happened to me, that I have been awakened by shock, that those conditions could exist in a democracy, and now we are in a war about 6 or 7 weeks, and I have read a great many statements where—and I know, because we heard the testimony last week about the condition we are in with regard to rubber, that here in a war of 5 weeks, cars cannot be sold, rubber tires cannot be sold, and they are rationing off. I have also been reading of a great many boats that have been coming back during the last year from the Philippine Islands, and the Dutch East Indies, empty.

I am wondering what kind of a deal it was in that somebody had control of that rubber, that was not coming, and should have come back in here.

I believe that if the people of the country really knew what happened, and I really believe that these deals, I will call them crimes, have interfered with the preparation of this country, and it seems to me to be a crime, it is criminal, that in a war that is just about 2 months old, we are faced with a condition like this, not only in rubber, but in zinc and in other materials.

Mr. ARNOLD. Well, it is very interesting to see the effect, the electrical effect of war on the monopoly problem. It was in 1938 that we showed the German control over beridium for the T. N. E. C.; it was a fantastic story. I could not get anybody interested. We did get interested, but the public seemed to feel that it is all right, he is entitled to make a little money out of his patent. I mean we had that whole philosophy.

I think that the war is going to bring such a tremendous increase in the basic materials that are useful to the small businessman, useful to the farmer, that it might usher in a state of collapse, a period of unprecedented industrial prosperity, because we technically are wealthy in the very things that we can use in business. In other words, if cotton is a drug on the market, and the steel is a drug on the market, then neither need be a drug on the market. You can trade one for the other. I think the correct economic policy during the war is to prevent this enormous wealth from falling into few hands, to shut it down again.

Mr. PLOESER. Mr. Arnold, hasn't the tendency been to push it into those hands by the very procurement policies of the Government?

Mr. ARNOLD. I would say we are gradually—I mean, if you are talking about tendency. There was a depression, I mean in the old days, everything started to collapse. The whole tendency then was to put floors under all sorts of prices, and bolster up these very kinds of restrictive practices, and it might have been, and it probably was necessary for temporary financial policy, and then we have been swinging away from that, I think, starting with the President's monopoly message, which is the first time we have been swinging away from that, and suddenly the war comes in, and we are realizing what is happening to us. Of course, the tendency of big business is to try to maintain their control. To put yourselves in their place for a minute, suppose you are a director of a corporation. You are elected. You are representing the stockholders. Here is a new

competitor which will be fine for the public, because it will create full production, but after the war is going to interfere with your developments. Now, what is your duty to your stockholders? You say all right, I will give my future dividends away. So, it is not a question of blaming the fellow. You cannot blame him unless the law stops him. If he can go his board of directors or his president, and say it would be nice if we can get rid of this competitor, but if we do we will be indicted, then I think you have got that curve. I don't know whether I have made myself clear or not.

Mr. PLOESER. Yes; you have; but our very administrative acts have caused that man to get more and more power, and since the rubber situation alone they called in for a conference to set up this reserve for the Government; they called in the big four of the rubber companies.

Mr. ARNOLD. Well, I don't know.

Mr. PLOESER. And they own an international agreement with the Dutch and the British interests, and they restrict the production, and the information that has come into my hands was that since this war started we very foolishly allowed through an international agreement of Dutch, British, and American interests, to restrict the shipment of rubber to this Nation that would easily have given us a 2- or 3-year stock pile.

That is part of the administration practice of this Government, which has helped to bring about that situation, as near as I can determine. I will admit that I have not gone to the extent—

The CHAIRMAN. Well, the Government didn't have anything to do with that, did it?

Mr. PLOESER. The Government set up this Rubber Reserve Corporation. The Government had called in the big four.

The CHAIRMAN. Well, we will have Mr. Jones before us in the morning, in executive session.

Mr. PLOESER. It is something that we are attempting to get into, as I say, without a complete and thorough and final side of the question. It does appear that we have all been guilty of playing into this practice, which is contrary to the policy of your Department, for example, which is to stop such a practice.

The CHAIRMAN. And your answer to the question, Has our war effort been interfered with by reason of these monopolistic restraints? Your answer is that—

Mr. ARNOLD. Oh, my answer is that I consider it the principal thing that has slowed the war effort.

The CHAIRMAN. I see. That is O. K.

Mr. Kirkland wants to ask you a question.

Mr. KIRKLAND. On the question of these cooperative advertising schemes that are brought to your attention, I understand that some of them do seek your approval of the scheme, and that you try to avoid any general approval of the scheme.

Mr. ARNOLD. You send it in. I just don't know what we have done in that, but I can tell you our general procedure. You send it in. We look it over. We attempt to investigate it. We send you a letter to the effect that we have received your report and the plan you are seeking or about to put into effect.

We believe that the situation is such that the principles embodied in our railroad release on such and such a date will apply. The railroad release in effect says that in the event that a plan is unusual in the demand, it would have only civil prosecution.

The CHAIRMAN. Without objection, the statement from Hon. Martin F. Smith will be inserted in the record.

(The statement referred to is as follows:)

**STATEMENT OF HON. MARTIN F. SMITH, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF WASHINGTON**

Mr. SMITH of Washington. Mr. Chairman and gentlemen of the committee, I am glad to have this opportunity of expressing my hearty support of the work which your committee is doing, as I consider the small businessman to be the most important unit in our business and economic structure.

I have been attending the committee hearings and listened with a great deal of interest to the statement of Mr. Leon Henderson, Price Administrator, regarding the status of the retail automobile dealers. I have sufficient confidence in Mr. Henderson's ability and fairness to believe that the dealers will be permitted to dispose of their new and used cars and trucks upon an equitable basis and that they will be protected by the Government against financial loss resulting from the freezing order and in connection with the warehousing of cars and trucks under the stock-pile arrangement. Every effort should, and I feel certain will, be made to cause the dealers the least possible loss and damage. I also hope that a satisfactory program will be formulated whereby they can service cars and trucks and obtain necessary parts and accessories for that purpose and continue in business.

Mr. Chairman, doubtless you intend also to consider the present and future problems of the small businessman generally. In that connection, it is my understanding that in Great Britain much of the work on war and national-defense contracts has been sublet to small firms, so that the facilities of every industry, no matter how small, are being utilized. In my opinion, that is a wise and sound policy and should be followed in our country. There are a number of very good reasons, it seems to me, why this should be done.

In the first place, instead of having all the manufacturing done in a limited number of gigantic plants in the large centers of population, some of the work would be done and parts made in the small plants in the towns throughout the Nation. This would result in less disruption of business and employment.

Secondly, the element of safety from bombing and aerial attack is certainly worthy of consideration. Obviously, the more scattered geographically the plants which are contributing, the less danger and likelihood there is of crippling our entire war effort. There can be no possible justification for concentrating all our war industries in very limited areas.

Then there is the question of housing. If the work is all to be done by these huge plants in the big cities, a congestion of population results and the housing problem becomes far more acute than if some of the work could be "farmed out" to smaller concerns elsewhere and the assembling done in the large cities. If this can be done practicably in Great Britain it can be done here.

It is also reported that the Nazis have put to work every available small factory in the occupied countries, particularly in France and Czechoslovakia, in turning out parts which are then shipped to Germany for final assembling in their own factories there.

Another reason why this policy of decentralization should be carried out is the fact that by doing so now while we are at war we will be preparing for the transition which I think all those who have seriously studied the economic and social situation in our Nation are agreed must come when the war is ended. We must then decentralize our industries. Concentration in the big cities causes congestion, disease, crime, unemployment, traffic problems, and is undesirable from every standpoint. Our people are insisting that numerous small factories be located in all the communities throughout the land instead of industry being restricted to a score of large cities. In many instances by locating the industries in small towns they would be closer to the source of raw materials and transportation costs would be less.

There are many other sound arguments in favor of decentralization, and this is one phase of our social and economic problems which should be probed thoroughly and is, of course, directly related to the future status of small business in this country. I believe that your committee has before it one of the most vital and important tasks which has been undertaken by any congressional committee in many years, and you have an opportunity to render a service the value and far-reaching effect of which cannot be overestimated. You have the hearty support of every Member of Congress and the people as a whole.

Mr. Chairman and members of the committee, I desire to thank you for your courtesy and patience in listening to these informal suggestions.

The CHAIRMAN. We will hear from Mr. Holcomb.

STATEMENT OF GUY HOLCOMB

The CHAIRMAN. Give your name, home address, and title, if you please, Mr. Holcomb.

Mr. HOLCOMB. My name is Guy Holcomb. I am Chief of the Small Business Section of the Antitrust Division of the Department of Justice. My residence is the Roger Smith Hotel, Washington.

Let me say parenthetically that I thought I would appear before this committee, I think, about a week or 10 days ago, as the chairman knows. At that time I prepared a statement. I do not think it is a very good one, and maybe the dating of it is not very good because things do happen rather swiftly.

The CHAIRMAN. Why don't you talk off the record now and insert the statement.

Mr. HOLCOMB. Well, I had this in mind, Mr. Chairman, that you let me go through the statement here, and then if any of the members of the committee might stop me at any point that provoked inquiry, or questioning, we could stop there and then take up, if that is agreeable, sir.

The CHAIRMAN. Go ahead.

Mr. HOLCOMB. To those of us whose duties have afforded the opportunity or responsibility to view the effects of the defense program on our national economy it is beginning to appear that business, both large and small, is faced with the alternative of either participation in the national defense effort or extinction, or at least indefinite suspension.

This condition has been and is being principally influenced by four phases of the national defense program. They are: Systems of Governmental procurement, progress of contract distribution, priorities, and rationing. As head of the Small Business Section of the Antitrust Division of the Department of Justice I have naturally been concerned with the effect of the over-all program on the so-called small-business enterprise. The handling in the past 6 months of hundreds of complaints from small businesses all over the country has inevitably created certain impressions as to how the smaller enterprise is faring, what its chief difficulties are, and how certain governmental policies and procedures mitigate against it.

It is inevitable that the process of converting this Nation from a peacetime basis into an all-out program of national defense will produce errors both of omission and commission. Any large-scale program of hasty conversion will produce inequities and mistakes.

Furthermore, it is an easy matter to sit in post mortem judgment of past mistakes. Monday morning quarterbacks have won many a game

and unfolded ingenious strategy that would have been impossible during the heat and strain of the Saturday conflict.

On the other hand, it would be difficult to effect more efficient policy and progress in our governmental economic procedure if we did not reexamine and analyze past errors.

It is not enough for those charged with responsible administration to dismiss glaring mistakes with a shrug of the shoulders and a statement that "hindsight is better than foresight."

Such an attitude after Pearl Harbor, for instance, would not have reassured the American people. They demanded inquiry and investigation as did their Congress, and their demands were promptly met.

It is evident by the very presence of this committee sitting in hearing that there is also a demand for inquiry, investigation, and explanation of the conduct of our national defense effort which to many appears to have been no more "on the alert" than were our armed forces in the Pacific.

I had gained the impression, Mr. Chairman, that you would put some value in the impression that the head of the Small Business Section would inevitably get from handling these various case-by-case practices.

The CHAIRMAN. Yes.

Mr. HOLCOMB. I submit for the record a column by Messrs. Pearson and Allen appearing in the Washington Times-Herald on Wednesday, January 7, 1942. This is the clipping, if the committee would like to place it in the record.

These reporters deal with a subject of great current interest since we have commenced the system of rationing automobile tires. This rationing has been necessitated by a shortage of crude rubber, both artificial and natural, and also the fact that a month ago our trade channels to sources of the crude rubber supply have been blockaded in the Pacific.

It might be interesting to project the effect of this rationing on our economy, especially as it affects many small business enterprises. Tire rationing will inevitably mean a curtailment of automobile use which in time will bring about great reduction in consumption and sale of gasoline and petroleum products.

There are 240,000 gasoline service stations in the United States, an overwhelming majority of which are very small individual proprietorships. There are about 20,000 retail tire establishments. These two small business groups together have in the past afforded employment for over a million people. If it is necessary to continue the rationing order as originally drawn, the economic doom of this group of small business people appears to be sealed. Closely related to this group are the 45,000 automobile dealers in the country who in recent months have been trimming their overhead and cost of doing business in contemplation of an eventual curtailment of automobile production and have been looking toward the sale of petroleum products and repair and maintenance services to keep their economic bodies and souls together for the duration of the war.

The CHAIRMAN. Let me ask you a question there. It has been suggested that since the large oil companies and the large mail-order houses have many items upon which they can depend for their opera-

tions, and the small tire dealers have only one (the sale of tires) that during this emergency the sale of tires or the rationing of tires should be made through the independent dealers entirely instead of permitting them to be rationed through the large mail-order houses and the large oil companies that do not need them in order to conserve.

Have you given that proposition consideration?

Mr. HOLCOMB. No; but, offhand, I think it would be in accordance with that idea—

The CHAIRMAN. Have you considered it, Mr. Arnold?

Mr. ARNOLD. Yes; I have, and I haven't any objection to Mr. Holcomb's giving his opinion, provided it is understood that the Department of Justice through Mr. Holcomb is not speaking officially on the decision.

The CHAIRMAN. That is right. We understand that.

Mr. ARNOLD. I personally would prefer not to in any way throw my official weight behind one policy or another for the reasons I have outlined.

I do not see why he cannot very frankly give his own opinion.

Mr. HOLCOMB. I hope the committee understand what I am trying to give is just one man's impression of what has been happening in small business.

The CHAIRMAN. I notice in the New York Times this morning where the president of the General Tire Co. said we only need 40,000 tons of rubber to keep the automobiles going. Did you happen to see that?

Mr. HOLCOMB. No; I did not see that.

The CHAIRMAN. That being true, we should not have any great shortage. I am not saying it is true, or not true, I don't know, but it is quite a different statement from what we heard before this committee.

Mr. HOLCOMB. It is to me. I would like to know more details. It is rather staggering.

Of a necessity, over 100,000 automobile salesmen have had to seek other employment, and it now appears very doubtful, in face of the tire-rationing order, that the average dealer can keep even his repair-shop doors open.

It is reported in the Washington Merry-Go-Round column, mentioned previously, that, due to the unexplained delay in the construction of synthetic-rubber plants in this country, our total annual output for last year was only 12,000 tons and that the new plants now under construction will not be in production until next summer, and that upon completion of these plants we can expect only a total of 80,000 tons of synthetic rubber per year, which is in startling contrast to the 720,000 tons of rubber consumed by the United States in 1941.

Mr. KELLY. Mr. Holcomb, do you have any idea what the capacity of the plant is which is under construction at Baton Rouge?

Mr. HOLCOMB. No, sir; I do not.

Mr. KELLY. It was the first plant?

Mr. HOLCOMB. Yes, sir; I do not know.

Mr. KELLY. It has been operating since May?

Mr. HOLCOMB. Well, these figures that are quoted in the column show that the total output in 1941 was 12,000 pounds.

Mr. KELLY. Do you mean of synthetic rubber? It must all come from that plant.

Mr. HOLCOMB. Yes.

The CHAIRMAN. Twelve thousand pounds?

Mr. HOLCOMB. Twelve thousand tons. I beg your pardon, sir; 12,000 tons.

Now, of course, since this statement was prepared we have seen the announcement in the papers from the Secretary of Commerce that other plants will be put in operation, and I believe the total output, the total contemplated output, upon completion of those additional plants is 400,000 tons. That is still just better than half of the total consumption of last year, or the total average annual consumption.

Mr. FITZGERALD. But it will take 18 months before you will get that.

Mr. HOLCOMB. I am not familiar with the details of that statement. I would very much like to say—

Mr. KELLY. Normally, what is the consumption of rubber in this country?

Mr. HOLCOMB. Five to six hundred thousand tons. In other words, your 720,000 tons represents the consumption during the great military or the increase of military program. The normal consumption will run five to six hundred thousand tons. That can be, of course, whittled down during times—people make money and tires are cheap; if you have a good enterprise, a man will buy a new tire and not have one retreaded.

The CHAIRMAN. Well, we all waste tires. We have in the past. We have not utilized them.

Mr. FITZGERALD. But it was also because, was it not, there were more cars produced in 1941 than there has been, and that took up a great part of those extra tires?

Mr. HOLCOMB. That is right.

This committee might be interested in exploring two angles to the rubber shortage; first, the delay with which synthetic plants have been planned and constructed; and second, whether or not a contributing factor to this delay has been international cartelization on the synthetic process between certain large American petroleum interests and the German chemical and rubber monopolies. I am not at liberty at this time to disclose details of the investigations that the Antitrust Division has been conducting into this cartel, but I think it is interesting and proper to state that as far back as 1929 negotiations were under way by the American and German interests who shared rights and privileges to the artificial process, and since 1933 the German parties to the cartel have been engaged in an all-out production program of artificial rubber while it was not until 1939 that artificial-rubber production was allowed to make its appearance in this country, on anything resembling an industrial basis, but they piddled around laboratories with it and got their pictures in the rotogravures. I presume you have those pictures anyway.

Now, on this matter of system of governmental procurement which, of course, over the last year and a half has multiplied many times, frequently work to the detriment, if not the exclusion, of the smaller organization who today more and more must depend on sales to the Government for its existence. For example, a small Pennsylvania manufacturer of steel filing cabinets complained to us of his inability to participate in Government requirements. Upon investigation we discovered that it had been the custom for several years for the Procurement Division of the Treasury Department to send out invitations to bid for Government requirements on this item on a 1-year term

basis; that is, the successful bidder would agree to furnish any agency of the Government, upon proper requisition, any number of filing units at whatever place of delivery that equipment was required. In the last 10 years the governmental requirements of this type of equipment has increased to such an extent that only two manufacturers in the entire country had productive capacities capable of filling the requirements of the Government over a 1-year period. Therefore, little, if any, competition was reflected in the prices that the Government paid for this type of equipment. As a matter of fact, in 1911 the Government paid \$22 each for a three-drawer metal filing unit, whereas in former years, with competitive bidding from both large and small manufacturers, the price averaged about \$13 per unit.

Mr. BULWINKLE. Of course, Mr. Holcomb, there came into that, I imagine, the increased cost of steel and labor costs?

Mr. HOLCOMB. Yes; and we were quite careful to investigate that, and we discovered that the maximum difference in labor and material cost is \$3. As a matter of fact, the complainant in this particular case—understand now, the Government paid this past year, 1941, \$22 each for a three-drawer unit. The complainant had salesmen in the field selling three-drawer units that met the Government specifications to the trade for \$19.

The CHAIRMAN. Well, that is a crime.

Mr. HOLCOMB. He had to pay the salary and taxes and the traveling, and everything, and commission to the salesman, so that the cost alone—

The CHAIRMAN. That shows the Government was just absolutely hijacked.

Mr. ARNOLD. May I interpolate? I would like to introduce in the record a little later, I would like to have a place for it, our proceeding against the tire companies, making identical bids to the Government. It is—was that in 1938; I think it was, and I will correct that on the record—but the bids, the Government bid asked for bids for tires. Each time the bids were identical down to the last penny, and the Government rejected the bids, and finally got the tires at a very substantial decrease by having an exigency declared by the Attorney General and negotiating a contract.

We then brought a proceeding in the name of the Government against the tire companies for triple damages, alleging damage to the Government because of these noncompetitive bids, for \$1,000,000.

By a decision of 4 to 3, very close division, Mr. Justice Black writing the dissenting opinion, and Mr. Justice Douglas, and I think it was Reed, concurring, the Supreme Court held that the Government in making its purchase did not have the right to sue for triple damages, and since that time there has not been any letting up on the identical bids.

In the case of identical bids we do not feel that the mere identical bid is sufficient to go to a criminal jury on the ground of reasonable or not, but we certainly think that in a situation where you do not have market price, such as wheat, the fact that bids are identical is sufficient cause to compel them to explain the coincidence in a civil suit for triple damages.

I think that this committee might well be interested in some sort of legislation which would amend the antitrust law to give the Government the right to sue for triple damages. They missed out by a

very close decision of the Supreme Court, and it would put power of tremendous significance in the hands of the Antitrust Division if we had that. I used that opportunity to get that in the record.

The CHAIRMAN. Yes. We would be glad to have it inserted.

Mr. ARNOLD. Will you excuse the interruption?

Mr. HOLCOMB. Of course. I think, too, such legislation would make the work of the small business section more effective, too.

We entered into negotiations with the Procurement Division to have this system revised, but before a complete revision could be effected the Priorities Section has, of course, forbidden the further manufacture of steel filing equipment.

Mr. BULWINKLE. Coming back to what you say, I notice down here in the stationery room we are supposed to buy on Government prices, but you can get things cheaper down town sometimes at retail than you can down here in the stationery department.

Mr. ARNOLD. That developed to be the situation in tires.

The CHAIRMAN. We are supposed to get quantity prices down there, and I can buy paper in quantities for 50 percent less than I do down there.

Mr. ARNOLD. If I may introduce in the record our report on identical bidding, I think it may be of interest.

Mr. HOLCOMB. Another interesting example of Government procurement has been the matter of discriminatory specifications. For example, the Army specifications on artificial teeth have for several years been drawn around the product of one manufacturer. The Surgeon General's office states that this came about because of their need of standardization, but to most of us it appears that the various manufacturers in this field should be induced to conform to the Army standards rather than have the Army conform to the standards of any favorite or chosen manufacturer, which is apparently the case in this instance.

And, incidentally, the records disclose that an artificial denture—that is, selling, that the Government is paying over the last 3 or 4 years to this one manufacturer, about 16 cents apiece, that the same size or style of tooth, under competitive bidding, sold to the Government for as low as 5½, 6, 7 cents apiece.

A Michigan boiler manufacturer complained that an award on a quarter-million-dollar installation for the Army was about to be made a competitor whom the complainant had underbid by over \$1,700.

Now, of course, \$1,700 is not a great deal of money, but it is the principle of the matter.

Investigation disclosed that the specifications were built around the design of the complainant's chief competitor and that the civilian consulting engineer on the job had recommended the award to the higher bidder in spite of the fact that the complainant had agreed to revamp his design without prejudice or additional cost to the Government.

On several occasions recently we have been meeting with various officers of the construction branch of the Army on behalf of a small manufacturer of chlorinating and water-treatment equipment who due to priorities must secure Government contracts or close his business. In the last 2 weeks we have discovered over a half dozen jobs

in various parts of the country specifications for which precluded the award to any firm save the dominant company in this particular industry. For instance, at the Huntsville, Ala., Arsenal the dominant firm's bid was \$26,000 on comparable equipment that the complainant had bid to install at \$14,000.

We are still at work on that thing.

The CHAIRMAN. Why would the War Department let that contract for \$26,000 when another concern offers to render the same services, deliver the same materials under the same conditions, for \$14,000?

Mr. HOLCOMB. Well, in this instance, I think, Mr. Chairman, it was because the one firm is well known, like a Hickey-Freeman suit.

The CHAIRMAN. I know, but that should not have anything to do with the War Department. They are not buying national brands.

Mr. HOLCOMB. No; but they are dependent—for instance, there is a firm of consulting engineers in Baltimore that are the consultants on the Huntsville Arsenal. Now, the War Department depends on the professional advice and guidance and what not of the consulting engineers.

Now, it is only human to have prejudices. Now, frankly, we had quite a heated conference with the head of the firm who came up from Baltimore. I am convinced that the man is honestly motivated. I am convinced that he just actually feels that this other company's equipment is so good that it might be worth the difference, but it was amusing to discover that in our conference with the head of the consulting firm of engineers had never even seen or inspected a unit by the complainant.

So, naturally, he was put in a most unfavorable position and had to retract his position, and the award was made to the complaining company.

Mr. KELLY. Did you go into the financial standing?

Mr. HOLCOMB. There was no issue there. The complainant was perfectly willing to put a warranty bond. As a matter of fact, any bonding company in the country would have been happy to act for them.

Mr. KELLY. In the case that I described here to Mr. Arnold this morning, that was a similar case that you are describing now, and the people that were furnishing this electrical cable for this ammunition plant that was under construction, that got the contract, although they were not the low bidder on it, they had to come back to the people that held the actual low bid to get half of the supply of cable, and there was a savings on a \$93,000 order to the United States Government, to the taxpayers, of \$4,300.

Mr. HOLCOMB. That is a very interesting case.

Mr. KELLY. Mr. Chairman, I think I am in position to answer the question that you are after there about this happening and the way it happens. Many of these corporations that are getting these contracts down here from the War Department have on their pay rolls ex-Army officers, retired Army officers, lieutenants, colonels, and majors, and one thing and another, that have a personal and social contact, and you will find many cases where these big corporations are getting a bulk of these contracts, you will find that those are the men, the front office men in steering those contracts into those corporations.

Mr. ARNOLD. May I point the whole thing up with just an observation? I think that if we had a system even before our courts, the only people that appeared were the attorneys for one side, you would get a similar result. I think that it is not a question so much of criticizing the past performance, but only of recognizing that human nature, being what it is, you are bound to have that repeated unless we develop a system of representation for the outside people, and it has become almost a fetish with me.

Mr. BULWINKLE. That is the reason I asked you a little while ago; if all the agencies of the Government who operate with the view to these small business propositions, the relief of small business—

Mr. HOLCOMB. I wonder if Mr. Bulwinkle meant this—is there coordination?

Mr. BULWINKLE. Did anybody from the War Department call you in to tell you about this?

Mr. HOLCOMB. Oh, no. It was quite the reverse. I called the War Department.

The CHAIRMAN. Now, Mr. Holcomb, you know, today is Monday and the Members would probably like to go over to the House. It is now about 12:13. I wonder if you would get up something, as many of these cases as you can, and I expect to ask permission to put them in the record. I think it would be worth while. I think it is a very constructive and helpful service that you are rendering in connection with this matter of pointing out these specific cases.

Do you think that might be done?

Mr. ARNOLD. Yes. I would like to have him do that. I would suggest that we do not do it with all of them, because one of the things which gives us cooperation of the War Department is simply the idea that they are going to correct, if they make any mistake they are going to correct the mistake. We are just not going to throw it on the public record every time there is a mistake made, which has been voluntarily and cooperatively corrected.

Mr. BULWINKLE. I think probably, Mr. Chairman, it would be best if we could have Mr. Holcomb back here in executive session.

The CHAIRMAN. Yes. Suppose you come back with Mr. Arnold on Wednesday.

Mr. HOLCOMB. If you gentlemen want to make it this afternoon, I will be at your pleasure. It would be cooperative. I will tell you why, we are bringing in some new personnel to the section, and if I could supply you whatever you wanted today, it would allow me to plan the rest of my week.

The CHAIRMAN. All right. It will be satisfactory for you to come back at 2:30 this afternoon.

Mr. HOLCOMB. I will try to bring other cases up here too.

The CHAIRMAN. All right. We will now recess until 2:30.

(At 12:20 p. m. a recess was taken to 2:30 p. m.)

AFTER RECESS

(The hearing was resumed at 2:30 p. m., pursuant to recess.)

Mr. BULWINKLE. I am informed that Mr. Patman will be here in a few minutes and until then I will take over.

I think it might be a good idea for you to proceed.

STATEMENT OF GUY HOLCOMB—Resumed

Mr. HOLCOMB. Gentlemen, I believe at the time we recessed, I was down to a point in my statement leading into the matter of contract distribution. That, you will recall, I stated is one of the four phases of the defense effort that had had a very definite bearing and significance on small-business problems.

The solution of the problem of contract distribution would go a long way toward relieving the perplexity and distress of smaller business. Progress is being made by the Division of Contract Distribution of the Office of Production Management under the direction of Mr. Floyd B. Odum. The Army and Navy have also set up a Division of Contract Distribution under the direction of Admiral Fisher, and I understand that the Maritime Commission has taken like steps.

Mr. BULWINKLE. Admiral Fisher has the Army and Navy?

Mr. HOLCOMB. Yes, sir.

Mr. BULWINKLE. Who has the Maritime, if you will pardon the interruption?

Mr. HOLCOMB. I do not know. I have not had contact with that group as yet.

The job is a prodigious one and it can be successfully accomplished, in my opinion, only after the correction of certain procedures and the adoption of an attitude on the part of its administrators to welcome honest criticism and intervention and to be eager to reexamine their orders and procedures. For instance, we have the complaint by a small manufacturer who had bid on certain equipment for the Civil Aeronautics Authority that required the use of processed silk. He was the low bidder but could not promise a specific delivery date as he had not been awarded a priority order on the raw material. That is the silk itself that had to be processed.

The bid was awarded to a larger company who was able to draw from their stock on hand pending the granting of a priority certificate. The complainant had applied to the Priority Division for a certificate so that he could bid for the business. This he was denied on the grounds that he did not have the business and was told to come back and talk the matter over if he were successful in securing the business. Without definite assurance of a priority certificate he was unable to promise delivery date and therefore secure the order. As a result of this and similar complaints that we have discussed with the Office of Production Management, measures have been taken to guard against a recurrence of this sort of dilemma.

On Saturday, December 20, the Norfolk Navy Yard sent out invitations to bid on 85,000 gallons of paint of a certain formula. The invitations were to be opened and bids awarded on December 27—bear in mind that gives only 7 days' notice—for delivery January 10, 1942. It was pointed out by a representative of smaller paint manufacturers that only two of the largest manufacturers could possibly handle an order of this size in the time limit imposed.

Mr. BULWINKLE. Where was that paint to be used?

Mr. HOLCOMB. In the Norfolk Navy Yard. It might interest you to know that there are two methods of procurement in Army and Navy. They have what they call field procurement, that is, the hos-

pitals and Army posts scattered anywhere in the country, and they procure with their own facilities maintenance supplies, such as disinfectants and so on. This was a field procurement.

Immediate contact was made with the Navy Department's Division of Contract Distribution and on the 23d of December telegraphic advice went to the various prospective bidders to the effect that the invitation was amended whereby they could bid on any part of the total.

Of course, that was a measure of relief, but there was still the time element that was only partially relieved by this amended instruction.

A small though well-known manufacturer of outboard motors complains that he is about to close his plant because of priorities on necessary materials while only 16 miles away his largest competitor is operating full swing, supplying both Government and civilian requirements. The complainant has been unable to secure Government orders.

Mr. KELLY. Do you care to give the location? Do you care to say where he is?

Mr. HOLCOMB. Right out of Milwaukee.

Mr. KELLY. Between Milwaukee and Sheboygan?

Mr. HOLCOMB. I don't know my geography very well.

Mr. KELLY. There is quite a shipbuilding plant at Sheboygan which is north of Milwaukee about 25 or 30 miles.

Mr. HOLCOMB. Of course, that country is known as the home of outboard motors, I think.

Mr. KELLY. That is right.

Mr. HOLCOMB. That brings to mind another series of letters that we have had from manufacturers of metal boats in the Great Lakes area. I can recall some three different complaints. They are small plants and couldn't make an awful lot of boats, but they could make metal boats.

We discovered, for instance, that the Maritime Commission would send out a contract to build a tanker or freighter or something of that sort, but there is no requirement that the shipbuilding company taking the prime contract must seek a subcontracting award. The thought naturally suggests itself.

Here is another up in Michigan that makes metal boats. They can't make metal boats for civilian requirements. Certainly they could supply the lifeboats for these ships and certainly the shipbuilding company itself could forego whatever profit is involved in making those units.

Mr. KELLY. We in Chicago have been fighting for some of that work in the South Chicago area right adjacent to the steel companies, and there is a shipbuilding concern there that is not doing anything and you can't get anything in there to put them in operation.

Both the Navy authorities and the Maritime Commission said they were not skilled mechanics in that part of the country, and yet after the last war they built a lot of ocean-going boats and boats that plied inland waters.

Mr. HOLCOMB. It is most confusing, I know, to you and to me and to members of my staff, to be confronted with a seemingly irrefutable statement. I believe the workers in the Chicago area are as skilled as they are anywhere else.

Mr. KELLY. It has been brought to my attention, however, that the Maritime Commission was going to build a drydock in St. Joe, Mich.

They will have to build a sheet-steel plant over there. There is no steel there.

Mr. HOLCOMB. I am not informed on that. It is a very interesting case, I am sure.

It is probable that the priority system caused more confusion, if not as much distress, among small businesses as any phase of the national defense effort. This is due in part, no doubt, to the fact that the average small-business proprietor is unaccustomed to involved or detailed regulatory procedure. He finds the various forms and orders difficult to read and fully comprehend, his lawyer can give him very little, if any, assistance, and those that do not have access to legal counsel are left in a state of utter bewilderment. On the other hand, I have discovered a reluctance on the part of priority officials to reexamine or make exception to hard and fast previous rulings; and, judging from the tone of complaints from small business firms throughout the country, the personnel and facilities of the various field offices of the Office of Production Management seem to require drastic revision and improvement. The direction of at least one such office that has come under our investigation reveals a situation so shot through with personal and group politics as to render the office a useless, ineffectual appendage. While all of us can appreciate that a hasty mobilization of personnel to assume new and emergency duties will inevitably produce errors in selection, it seems evident corrective steps should be taken along this line. It is still apparent that the original fundamental error of not including in the various defense agencies a reasonable percentage of smaller businessmen bringing with them a broader and more independent viewpoint has not been corrected and that there is not yet enough realization and understanding on the part of the various defense staffs of the far-reaching effects of some contemplated order on countless numbers of small business proprietors.

That is a point, if the committee will pardon a personal reference. It is my honest opinion that is one of the fundamental errors that took place a year and a half or 2 years ago.

You can go back to the old Advisory Commission or the Council of National Defense. There were no small business people included in that group. The dollar-a-year man—and there is no crime in being a dollar-a-year man—but the whole personnel was selected from big industry. I happen to have first-hand information on that, because I was supposed to represent the retail-gasoline industry on the Advisory Commission, and this thing is not going to work unless you can have a broader representation on these industry groups.

Mr. HALLECK. You referred to the field offices. Does that have reference to field offices of the Division of Contract Distribution?

Mr. HOLCOMB. I believe they are known as the field offices of the Office of Production Management. They are supposed to be the priorities, the Division of Contract Distribution; and other phases of the O. P. M. activities.

Mr. HALLECK. I thought we might clear that up. My impression about it is that there is under Mr. Odum a division of O. P. M. which is the Contract Distribution Division. The field office in each State—and there may be a number of field offices in the State that are under that—

Mr. HOLCOMB. That is right.

Mr. HALLECK. Whose primary function is what the name indicates. They are to aid in distributing the defense work.

Mr. HOLCOMB. There is also personnel in these same field offices supposed to interpret and advise with the applicants or complainants as to the meanings, and so forth, of priority orders.

Mr. HALLECK. My impression about that is that there is a separate personnel or separate person having to do with priorities in the different States, and that those people are charged with the responsibility of handling the matters of priorities so far as they can be handled locally.

I only raise it because not so long ago at the direction of the chairman of the committee I checked with the Office of Contract Distribution in my State, Indianapolis, Ind., and found they were doing a splendid job, but the director in the field who is bumping into these little fellows all the time and understands their problems and knows something about the difficulties in the way of getting the work to these little fellows and getting them in the defense program had quite a few things to say along the general line of what you are saying in respect to his ability to get a job down in contemplation of all the other things that exist under this program.

Mr. HOLCOMB. Well, I believe both of us are right. I know that you are because you have personnel to do with priorities and then you have personnel having to do with contract distribution, but I believe you will find them all housed in the same offices and it is usually at the Federal Reserve bank, if they have sufficient facilities there, but it is all known locally as the O. P. M. field office.

Mr. KIRKLAND. It is my understanding, and you may check this for an accurate statement for the record, that in some cases the O. P. M. priorities and other divisions of O. P. M., such as the Labor Division, as well, do utilize the same office space, but in most cases the Contract Distribution Office and the priority offices are separate offices set up within the State. They may work together, but they do have separate organizations. We will check that for the record.

Mr. HALL. It was my understanding of Mr. Odum's testimony that he had set up 140 offices throughout the country, and I thought he was referring to the distribution end.

Mr. BULWINKLE. He was not referring to the priorities.

Mr. HALL. Mr. Odum said that he had recommended, or was about to recommend, a separate and distinct organization or agency in Washington to handle the problem of small business. What do you think of that?

Mr. HOLCOMB. I didn't hear his testimony, but I will immediately applaud and second that motion. As a matter of fact, I didn't know anything of Mr. Odum's testimony at all. I believe both Mr. Thurman Arnold and myself are on record as sponsoring such an idea, and I had planned, as Mr. Kirkland mentioned—

Mr. BULWINKLE. Where would you set that organization up?

Mr. HOLCOMB. Right here in Washington.

Mr. BULWINKLE. Under what department or division?

Mr. HOLCOMB. Under no department or division. I would like to come back to that, if I may, a little later.

Mr. FITZGERALD. What power would they have over the Army and Navy?

Mr. HOLCOMB. Whatever power Congress wanted to give them.

Mr. FITZGERALD. They give out the prime contracts, in the first place.

Mr. HOLCOMB. Whatever power Congress feels they should have.

Mr. FITZGERALD. Isn't that the bottleneck? Isn't it that the Army and Navy gives out the prime contracts and the small fellow is just running around in a circle trying to get them? You can multiply those cases that you mentioned here this afternoon by a hundred.

Mr. HOLCOMB. Yes; I think that is so.

Mr. FITZGERALD. I can give you one in my district employing a hundred—an aluminum, brass, and bronze foundry that cannot get a ton of brass scrap a week. Our brass foundry is important and should be important. They should be receiving subcontracts.

Another one is plating work, chrome and nickel plating, which is very necessary today in defense work. He has been chasing around from pillar to post for over a year trying to get some work to do in defense because he is not able to get his materials that he needs for civilian work. He couldn't get to first base in getting any of this subcontracting work. Unless something is done with the Army and Navy to shake them loose—

Mr. HOLCOMB. I don't think Mr. Odlum has had proper authority. I think he sees the picture.

Mr. FITZGERALD. I think his job is bringing the contractor to the job.

Mr. HOLCOMB. But he doesn't have the authority to force subcontracting, and I think anyone who attempts to criticize what has been done in his Division should take cognizance of the fact that the man hasn't had the authority.

I think his heart is right, and I think he is a man of great intelligence.

I am particularly attached to his idea that there should be 1 to 2 percent of the total raw materials of the country set aside and allocated to the small plant with 25 or less employees, which is unable to convert to defense work.

Mr. BULWINKLE. If there are no more questions, you may proceed.

Mr. HOLCOMB. We were talking about the matter of not bringing into the picture the viewpoint and the talents and experience of the small businessman.

For instance, when the sugar order was promulgated last month no provision was made for the small processor who had by hard work and ingenuity managed to substantially increase his volume of business during the year. His quota was based on his requirements 12 months before. Your quota was based on what you used in January 1941. An attorney for such a firm called long distance to explain that the order would mean the discharge of 81 employees by his client almost overnight. I conferred with those in the Office of Price Administration having to do with the sugar order and in a few days a modification was agreed upon. The attorney was so informed by my office and instructed to apply to the field office of the Office of Production Management in his city for the proper forms to fill out. After a few days I was called again by the same attorney, who explained that no one in the field office had any information on the sugar order and, furthermore, no one there could locate any of the forms required by Washington.

Thirty-five hundred small-business firms engaged in the electric-sign business throughout the country have been sending representa-

tives to Washington since last August in an endeavor to secure a modification of the priority regulations on copper wire so that the manufacturers of transformers might supply them with the necessary equipment—each electric sign has to have a transformer—and the only materials affected by priorities in the conduct of their business—that is the transformer wire, the copper wire going into the transformer itself was the only material affecting an industry employing over 65,000 people.

The employment of over 65,000 people is dependent on the continued operation of this industry and the amount of copper required for the transformers is infinitesimal.

Incidentally, since this was drafted I have been informed there has been a modification of the copper order and a few of the transformer manufacturers have gotten some wire, but, on the other hand, I happen to know in the last 4 to 6 weeks of a dozen or more small-time companies that have closed up, locked the doors, and called it a day.

A small farm-machinery manufacturer in Iowa sent in a desperate letter last month outlining how he had corresponded repeatedly with the Office of Production Management in order to get delivery of his order for steel and angle iron from his source of supply. Contact with the Farm Equipment Section of the Priorities Division disclosed that a manufacturer of farm machinery was entitled to a very high priority rating and that so far as they knew this particular company was eligible for such a rating. They were, however, unable to discover copies of any correspondence or a file on the name of this manufacturer whatsoever, although at the time I had been forwarded carbon copies of letters addressed to that section over a period of 4 months by the complainant.

Mr. KELLY. I can substantiate that statement by the story of two files they were trying to locate for a man concerning an order of brass, in Chicago, started on the 17th day of November and a week ago today they discovered the two files. I even sent down a copy of the original order the man mailed to me. That was lost down there. So the real bottleneck in that order was in the Office of Production Management.

Mr. HOLCOMB. This man tells me he has over \$12,000 of orders on file he is waiting to make and sell. Of course, that is peanuts to big business, but in Marshallville, Iowa, \$12,000 of orders on file is a lot of orders on file.

I requested that a letter of explanation be written to the complainant and the necessary forms which he had sent in months ago be sent him immediately. Four days ago I received from the same complainant a carbon copy of a letter that he had written the Priorities Section still trying to arrange shipment of his order.

An increasing number of cases of far-reaching economic significance are coming to our attention. These cases appear to demand consideration and handling, for which there are apparently no governmental facilities. This brings up the fact that I believe Mr. Hall mentioned regarding Mr. Odlum's testimony.

For example, there are several thousand small proprietors of dry-cleaning establishments who over the years have purchased certain types of dry-cleaning equipment that can use only chemicals having a chlorine base. These little firms have been able to pass on to the public good service at a minimum price and in the last few years

their business has grown in volume so that they have until recently been doing 30 percent of the total dry-cleaning business in the entire country. These little firms are in your own home town and in Washington, the corner cash-and-carry dry-cleaning establishments. Chlorine is much less volatile than naphtha and can be set up in the back of the establishment because the fire hazards, and so on, are not so high and it doesn't require special construction.

Now, due to military requirements, no chlorine is available for any civilian use whatever. Therefore, your small dry-cleaning establishment with chlorine equipment must either turn to the larger so-called naphtha plants for wholesale arrangements or go out of business. By and large the operators of these naphtha plants have looked on the so-called synthetic plant operators with much the same attitude as a doctor of medicine regards a chiropractor. And there is a reluctance, in fact a refusal, in most cases of the naphtha operator to work out any kind of deal whatever.

Mr. FITZGERALD. I would like to state for the record that I had the same complaint from a widow in my district who is in the business and wanted a barrel a month, I think, of the dry-cleaning fluid.

Mr. HOLCOMB. You can't get a barrel.

Mr. FITZGERALD. I took the matter up with the Office of Production Management and was told she had to send her business to a larger concern or go out of business.

That widow had three sons in the service, fighting now, and it was a pretty tough letter for me to have to write and inform her she had to go out of business.

But I will substantiate with proof in my office what you have stated there. I have had that personal experience.

Mr. HOLCOMB. Now, distress among these small operators is further extenuated by instances where they have purchased their equipment on a time-payment plan extending from 1 to 3 years. They are unable to make these payments. The equipment manufacturers having hundreds of thousands of dollars in installment paper are unable to force collection and repossess the equipment for the simple reason that the equipment is valueless without chlorine chemicals. Of course, the equipment manufacturers have had to discontinue the construction of new equipment and have been unable to deliver orders for equipment on file. Inevitably the bankers enter into the picture and want an explanation, where there is no explanation.

That is the situation. There is no Government agency to take care of a thing like that. It is not your function and it is not the function of the Department of Commerce or any of the defense agencies or certainly the Department of Justice. They do not have jurisdiction in a matter of that sort but something ought to be done. There should be some agency to step in and work out a deal, or force the larger plants to work out a fair proposition with the small outfits or arrange with the bank to maybe fund or work out some sort of a way where the equipment manufacturer can pay interest on his indebtedness or the little plant, instead of paying \$50 a month, could cut it down to \$10 or \$15. After all, the equipment is not depreciating because it is not being used. But there should be some facility to bring out an orderly state from a chaotic situation.

Mr. BULWINKLE. How much chlorine is in the United States now?

Mr. HOLCOMB. I am not informed on that, Mr. Bulwinkle. Our economists in the Antitrust Division have ascertained the scarcity is quite genuine.

Mr. BULWINKLE. I am not criticizing the Army and don't mean it that way, but are they just storing this in a warehouse or do they actually need it?

Mr. HOLCOMB. It is used in chemical warfare. It is a vital element.

Mr. BULWINKLE. It is used in water treatment?

Mr. HOLCOMB. It must be used in water treatment today.

I don't think there is anything reprehensible about the chlorine shortage. We were making plenty for civilian use but were not making it for bombs and so on.

Another case is one previously referred to centering, for instance, in Jamestown, N. Y., which has become known for its metal furniture industry and around which industry the whole economy of the community is built. The manufacturer of metal office furniture is a thing of the past for the duration. Employees of many years standing who own homes, support the churches, and who are the fiber and substance of this community's life are at a loss to know which way to turn. They read of new cities being built in conjunction with the defense effort while they look on their own city as a prospective ghost town.

Surely these metal working plants that have been in operation for years should have some place in the defense picture. Surely these skilled metal workers who are so deeply rooted, economically and socially in their community can render invaluable service to our program of all-out production. But, failing in this, what is to be the Government's attitude toward this community, its people, and its industries?

You hear about migratory workers. The old Okie problem was something we were all interested in, the social problem, but this is where a man owns a home and has his mortgage half paid and he has been working 25 or 30 years in one plant and he will of necessity be uprooted and taken somewhere and set down and they will say, "Go to work."

The community that he leaves loses a good citizen but the new community he comes into does not gain a good citizen. That man's body might be there but his heart and his family and everything he has for years held dear is way back yonder in the home town.

In other words, people in uniform win battles, but people on the home front, gentlemen, win wars, and that has been my concern as head of the Small Business Section.

Let us consider other inevitable consequences of tire rationing and the sharp curtailment of the use of automobiles and the consumption of motor fuel. Every State in the Union depends substantially on its motor-fuel tax to maintain its roads, its schools, its institutions, and its share of relief and social administration. The State of Georgia, for instance, received 48 percent of its total revenue from the motor-fuel tax. A conservative estimate is that civilian consumption of motor fuel will, within a year, be reduced by one-half. Contemplation of the inevitable result on the revenues of our States and counties of this development must give us all serious pause.

The British people have set up systems to afford nominal assistance to economic enterprises that are unable to be converted into military purposes. They receive subsidies sufficient only for care and maintenance of properties and equipment in order that these establishments may spring to new life and activity at the end of the war period. Would it not be well for this committee to give serious thought and consideration as to what steps should be taken and what provisions should be made to set up immediately, rather than at some later date of confusion and despair, governmental machinery and mechanics to deal with problems of this character that are inevitably appearing in increasing numbers?

Mr. BULWINKLE. Just there, you mentioned tires. I want to ask this as a lawyer. I am an individual who purchased tires and paid for them back in the summer or the fall, and asked the dealer to hold them for me until I was ready for them. What right, under the law, had anybody to keep those tires?

Mr. HOLCOMB. Mr. Bulwinkle, I would want to see a citation on that first.

Mr. BULWINKLE. Well, I purchased them from Mr. Hall.

Mr. HOLCOMB. I know what you mean.

Mr. BULWINKLE. And I paid for them and said, "You keep those for me and I will get them at Christmas time."

Mr. HOLCOMB. If I were adjudicating that matter, I would say they were your tires.

Mr. BULWINKLE. That's what I told him, that he was merely a warehouseman for accommodation.

Mr. HOLCOMB. Or a friend doing a neighborly act in holding the tires.

Mr. KELLY. Does that condition prevail in the matter of chlorine also, where any of these small cleaners had it bought up and had it stored in the storehouses when the Army officials came through the 1st of August or the latter part of July and tagged every one of them?

Mr. HOLCOMB. I have not been advised of that.

Mr. HALL. With reference to gasoline taxes, I believe most of our county budgets are prepared in New York State in the month of October, and these municipalities made some determination of how much they were going to get as income from gasoline taxes in 1942. It would seem to me that most of those budgets would be out of whack this year.

Mr. HOLCOMB. That is possibly true. I am not acquainted with that. But I cite that only to emphasize the point I am leading up to here.

I should like to submit the proposition that the time is at hand here and now for the Congress and the administration to decide just what is to be the policy toward and the fate of the thousands of small business enterprises whose facilities are unable to be converted into defense production. In fairness to those whose meager fortunes are at stake and to those 82 percent of the present inductees in our armed forces who come from small business homes or small business employment—in fairness indeed to all who are concerned with the economic pattern we are to follow during the war years—this decision should be made quickly and finally.

Two general attitudes immediately suggest themselves. One is clearly outlined in the November 18 issue of the Providence Journal reporting an account of a meeting of Rhode Island businessmen which was addressed by an official of the Office of Production Management. The speaker had urged small business to seek out items in the Government's war needs which their plants could be converted to produce. One of his listeners asked him, "What about the fellow who cannot convert his plant to war use?" The official replied: "Let him die. Get him out of the way. For in the world to come there is room only for battlers. There is no doubt at all that thousands of businesses are going to liquidate."

Mr. BULWINKLE. Who was that official? What was his name?

Mr. HOLCOMB. Mr. Bulwinkle, since I prepared this statement a friend of mine, who is also a friend of this official, has told me that this official has claimed to have been misquoted.

Mr. BULWINKLE. That is probable.

Mr. HOLCOMB. For that reason you will see that I have deleted from this record the speaker's name and have placed my faith and confidence in this friend's word—

Mr. BULWINKLE. I know that, but it is going out to the country that such a statement was made unless you show the man says he was misquoted. You are not doing him justice if you think he was misquoted.

Mr. HOLCOMB. All I know is what I saw in the newspaper and the Library of Congress has the November 18 issue of the Providence Journal and it was from that that these remarks were made.

Mr. HALLECK. That has been given rather widespread publicity anyway.

Mr. HOLCOMB. I believe it has, Mr. Halleck.

I quote that not to bring an indictment against the speaker. I quote it to cite it as an example of the philosophy that is prevailing in some quarters.

Mr. HALLECK. Just along that line, I had some fellows from my district down here who went down to see about a little business and they came back to me with the most astounding story of what this individual said about little business. I said, "Put that in writing," and they did and it is in my desk and I haven't done anything about it, but without questioning the veracity of this particular item I would not be surprised if there were not numerous people in these agencies who have taken that slant on it. It is a hard-boiled attitude which we might have to swallow—I don't know—but it is certainly abhorrent to me.

Mr. HOLCOMB. I don't contend that is the prevailing attitude in the Office of Production Management, but I state to you that, in my opinion, it is the existing attitude.

Mr. BULWINKLE. I will go further than that. I think some of the most incompetent people I have ever seen are in it and they ought to be weeded out.

Mr. HOLCOMB. Another question was asked about the part the jobber can play in the war picture.

Mr. PLOESER. What consideration have you given to the type of legislation that you speak about as being needed?

Mr. HOLCOMB. I believe I have that right here. Just a minute.

Mr. PLOESER. Then I will wait. I thought you were diverting to another subject.

Mr. HOLCOMB. This is quite in line, I believe, sir.

Another question was about the part the jobber can play in the war picture. The speaker, according to the Providence Journal's account, asked his questioner if he was a jobber. Upon receiving an affirmative reply, the O. P. M. official "picked up a bunch of flowers from a vase in front of him, held them toward someone, and said, shaking his head sadly, 'Give them to him.'"

Now, gentlemen of the committee, if this is to be the Government's attitude, if this is to be the Government's policy, the sooner a clear enunciation of it goes out to the public at large the better. I would like to suggest, however, that if the substance of the above remarks as reported in the Providence Journal are embraced as governmental policy that the public at large would be much interested in further details on "the world to come."

Mr. BULWINKLE. In justice to Mr. Nelson, we all know that he wanted to do all he could for any and all business, small and large, in order to keep up the morale of the country. I don't think that was the position of the Government at all.

Mr. HOLCOMB. I say if it is to be—

Mr. BULWINKLE. I don't think it is to be.

Mr. HOLCOMB. I don't either.

Mr. BULWINKLE. Therefore, I wouldn't put the thought in anybody's mind that it is.

Mr. HOLCOMB. I hope that that won't be put in anybody's mind, but, on the other hand, Mr. Bulwinkle, if officials of departments of Government are to state publicly, or, as Mr. Halleck has suggested—

Mr. BULWINKLE. Did you find out whether he was misquoted as to that?

Mr. HOLCOMB. I have not had time to investigate and ascertain. I do know that the Providence Journal is a very reputable newspaper, and I believe if this thing was challenged that the Providence Journal would have retracted.

An opposite alternative of Government attitude and policy is suggested by, for instance, Senator O'Mahoney's bill No. 1847 which provides for the designation of some agency of the Government charged with the responsibility of allocating necessary amounts of materials under priorities in order to prevent distress and elimination of the small competitive unit. Another suggestion has been made by Mr. Floyd B. Odium to the effect that the 100,000 or more small plants employing 20 or less employees and whose aggregate consumption is only about 2 percent of the total resources of the Nation should be allocated sufficient materials to continue their civilian activity. Mr. Odium argues, and many concur with him, that such a policy would be infinitely sounder and, in the long run, of greater economic benefit to our society than a cold-blooded elimination of the small business unit consuming, as it does, a microscopic portion of our raw materials.

There are those that would have us believe that the typical small businessman is an indifferent, indigent, unimaginative citizen, that he is sitting back waiting for the Government to come around and see him, and more or less hoping for the best. Anyone who paints this

picture as being typical or representative of the small business proprietor has no knowledge of what he is talking about. Anyone who says of him "Let him die! Get him out of the way" is without understanding of what makes up the fiber and core of a democratic society.

What a democratic society needs is more and more small business people in peace as well as in war. The small businessman is a gallant figure. He typifies all that is good and sound and free in democratic society. His roots go deep into the native sod and he has a perpetual stake in all that we hope to preserve and for which his sons are now fighting to protect.

If it is the pleasure of the committee, I would like to suggest that the committee consider the feasibility or the desirability of the establishment of an independent agency of the Government. For the lack of a better term call it the "Office of Small Business Problems."

The question was asked as to what department or division should it operate, and my answer is under no department, under no division. It should be an independent agency.

It should be charged, among other things, in my opinion, with the coordinating of whatever small business activity and contribution could be made from Agriculture, Interior, Commerce, Justice, and so on.

For instance, there is a small business unit in the Department of Commerce. It has recently been set up. What it is prepared or required to do, I don't know. I plan to be in conference with its director as soon as possible, but it is very difficult to coordinate small business assistance, small business forum, and small business advocacy through interdepartmental memorandums.

Mr. BULWINKLE. It takes time.

Mr. HOLCOMB. It not only takes time but it takes infinitely more patience than most of us are endowed with.

I believe such a section for the duration—I mean such a department of the Government for the duration, should have in the first place equal authority, equal status, with any constitutional department of the Government.

I am not suggesting that it should have a cabinet position. That perhaps requires constitutional revision. I don't know.

For instance, a labor board has been appointed, the War Labor Board, six people from business and six from labor. Now, gentlemen, there is not a small businessman on the Board. There was not a small businessman on the Labor Peace Conference when thousands of the fruit growers of the Yakima Valley in Washington were losing their whole year's crop because of hot cargo edicts by the Teamsters Union, but the president of the Teamsters Union was sitting at the table at the peace conference when the apples were rotting in Chicago and Milwaukee and St. Paul and New York, and so forth.

The whole dispute had to do with the packing plant in the Yakima Valley, whether or not these farmers would agree to a closed-shop arrangement with the local union out there which would have prevented a farmer's own children or his wife or himself from harvesting and packing his crop unless they were members of the union.

There, again, is emphasized the need of an agency of the Government with sufficient dignity, authority, and standing to represent small business right down the line, not only on defense-contract distribution,

not only with the antitrust division of the Department of Justice, not only in Commerce and Agriculture and Interior, but bringing all these phases together.

And I think it should be done by congressional statute rather than by Executive order, because I think such a department should be, by the very technique of its set-up, responsible to the Congress as well as the administration.

Mr. HALL. You think we have a new forgotten man?

Mr. HOLCOMB. He is not so new. I don't believe he is so new, Mr. Hall.

Mr. PLOESER. I don't think there is anything new about him.

Mr. HOLCOMB. No; he is your neighbor.

The nice thing about talking to Congressmen is that most of them are from whistle stops. Take Mr. Bulwinkle here from Gastonia—

Mr. BULWINKLE. I don't think that is a whistle stop.

Mr. HOLCOMB. That is not for the chamber of commerce.

Mr. PLOESER. Have you taken into consideration here the small business problem involves a past statistical history that shows that the small businessman normally has a very short life?

Mr. HOLCOMB. Oh, yes.

Mr. PLOESER. There is this here that without that understanding on the part of Government agencies dealing with the problem that the small businessman could become, instead of an independent unit, a child of Government, being patronized to the extent that beyond capability of management or capability to survive, he might become a charge. I am a small businessman and I know how short lived the small businessman is.

Mr. HALLECK. You don't mean they are not worth saving, do you?

Mr. PLOESER. No; that would be the same as saying I myself wasn't. I am a firm believer in more and more small business. Democracy will have a far better chance to survive made up of small independent business units. But present-day theorists in Government could well patronize the small businessman into a dependent without life or hope.

Mr. HOLCOMB. I think if they could be real children of the family they would feel their status had been lifted. Really, I do.

Mr. HALLECK. I have been impressed with what you have pointed out as the failure in an instance or two to put representatives of small business on some of these boards.

Mr. HOLCOMB. I don't claim that would have cured it, but it certainly would have helped.

Mr. HALLECK. I had some of that when we had the Price Control Board before us which provided for the setting up of these advisory committees in each industry.

Under the N. R. A. our experience was the advisory committee was dominated by the big fellows and the little fellows squeezed out. I also have been particularly interested in your suggestion about some agency of the Government that might be charged with definite responsibility to small business. As one who has given quite a little thought to this problem and listened to a lot of these people, I have been impressed with the difficulties lying in the way of some such action. The new head of our war production is Mr. Nelson—

Mr. HOLCOMB. May I say that from letters and conversations I have had I think he is a man who has the confidence of the small-business people. I think they feel a little better about him.

Mr. HALLECK. But I was getting ready to point out what seems to be the difficulty we have to think about.

Mr. Nelson is the over-all production chief. Of course, already somebody is saying, "What is the effect of that when Mr. Knudsen has been made a general in the Army and presumably given authority over the war production necessary for the Army?"

In the final analysis there are certain things, as I view it, that can be done for the little-business fellow. This allocation of materials that you have talked about is one thing that has been suggested. Spreading of the defense effort through contract distribution is another thing.

Mr. HOLCOMB. Make it mandatory.

Mr. HALLECK. Now, you make the suggestion as to its being mandatory, and that is the thing that has run through my mind.

As I understand, Mr. Odum's division in O. P. M. is purely advisory. He can't make the Government give this fellow a prime contract and he can't absolutely require a prime contractor to sub-contract some of that work.

Now, whether or not there should be a more mandatory authority in the hands of whoever is to fill it, or whether or not we should set up a new agency, giving that agency some direct mandatory authority, I think that is a direct question.

If we set up another agency charged with protecting small business and give them the absolute authority to say to the Army, Navy, or Maritime Commission, "You have to give that contract to this particular fellow," won't we be running counter to the over-all responsibility of this new person who happens to be Donald Nelson, who is charged with expediting and carrying on the whole problem of war production? Those questions just occurred to me.

Mr. HOLCOMB. Let's take that last question.

Mr. HALLECK. I would like to have your impressions about that.

Mr. HOLCOMB. That last question, whether or not such a set-up would obstruct the duties and obligations and responsibilities of Mr. Nelson. I say "No" on this score. I do not believe that the President's quota set in his message before you gentlemen can be reached without the inclusion of the small-business plants.

Mr. HALLECK. I thoroughly agree with you there.

Mr. HOLCOMB. We can't do it with existing facilities. We can only do it in one or two ways.

Take your Jamestown metal furniture place. There are plants and workers who would welcome work. It is either by using present facilities or building additional new facilities. Additional new facilities call for additional steel work, brick work, and that sort of thing. You have a new city here and have to build housing facilities for the people who leave good warm houses who come here and live in temporary houses. You have to build waterworks for people leaving cities with waterworks to come over here without waterworks.

I don't believe it will be counter to Mr. Nelson's handling of the job.

Mr. HALLECK. I agree with you about the necessity. If we are going to produce \$50,000,000,000 of war products in 1942, we have got to bring into the production picture these plants all over the country that can be converted. I think it has got to be done to do the job of war production, and it ought to be done to preserve the solvency of these little firms.

Let me proceed one sentence further and then I am through.

Assuming Mr. Nelson or the O. P. M., or whoever is in charge, is faced with a job that he wants to get done quickly or for any reason—and this doesn't suggest any lack of confidence in Mr. Nelson because I am convinced he will do an able job—but suppose he doesn't spread the work as far as you and I think it should be spread, can we set up an independent agency of the Government that would supersede his judgment in that respect?

Mr. HOLCOMB. I don't think we should do that.

Mr. HALLECK. It would have to be an advisory function under the—

Mr. HOLCOMB. It could be advisory, but it could have equal status with him. In other words, it brings up this point. There are agencies of the Government today that have equal status with Mr. Nelson.

Mr. PLOESER. Don't you think we are trying to formulate a conclusion opinion while we are in the midst of a reorganization of the production facilities? We don't know what Mr. Nelson will come forth with as his outline. The Office of Contract Distribution may be a different factor a week from now, and I think conclusive thinking along the very admirable and timely suggestions you have made should be held in abeyance until Nelson has a chance to announce his program.

Mr. HOLCOMB. Let me suggest this, Mr. Ploeser. Let's suppose, for instance, that that Division of Contract Distribution does not assume a more significant status. Then, if there existed a so-called office of small-business problems it would be there to see that it did.

I think we should look on this proposed agency or suggested agency more in this light; not as an administrative body per se but, first, as a forum for small business, and, second, as its independent advocate, and, third, as its trouble shooter.

For instance, suppose that it developed that there is no effective working of contract distribution. Then it would be the prerogative of this contemplated agency to step in and say, "See here, why not?"

I think you were here when I referred to provisions that have been made in Great Britain for subsidizing the plant that cannot be converted into production. It will be a matter of pure care and maintenance to keep the plant there and keep it swept out and keep the machinery from rotting.

Suppose there is a reluctance on the part of the Federal loan agencies to come forth with such assistance. That would be the small businessman's idea and such an office should be constantly aware and acquainted and informed as to the needs, and it should have the right to step in and say, "See here, why isn't this done?"

I like to think that if this had been set up 2 or 3 years ago that it would not have been until this month that announcements were made of increased artificial-rubber-producing plants, and I hope this committee will inquire, as I am told that you have the opportunity to do—

I hope this committee will inquire as to who has been designated to operate these new plants. Is it again the Big Four rubber companies or is it the smaller independent companies who are today wondering what they are going to do? I have letters from them. There is Mohawk and Brunswick and so on down the line. They are not the Big Four, but they have a plant and a pay roll and a property, and they have little independent dealers throughout the country who are wondering what they are going to do.

Mr. KELLY. I don't think many of those little plants would be capable of handling the situation, synthetic rubber. It is in conjunction with the oil plants.

Mr. HOLCOMB. It comes from a chemical byproduct of oil; but the processing, who will do that? Who is going to make the tires out of artificial rubber and through what channels will they be distributed?

Mr. PLOESER. Most of the larger rubber companies are going to the chemical plants anyway to get cooperation in the development of the processing.

Mr. HOLCOMB. They are all starting at law.

Mr. PLOESER. In the production.

Mr. HOLCOMB. If Goodyear is running this artificial plant, isn't it fair to assume Goodyear is going to make the tires from the rubber?

Mr. KELLY. I think you will find the oil companies operating the plants.

Mr. HOLCOMB. That will be interesting, too.

Mr. PLOESER. The only point I meant to make was this: That at this particular period I think you and all of us are rushing our thinking if we are trying to come to any conclusion prior to the announcement of the new production set-up.

I was very much pleased with the changes that were made and very hopeful, in the light of the changes, that there will be a tremendous improvement.

Mr. KELLY. I wish to say this before we conclude. One man that I think we can place some reliance on to protect some of the small-business interests is Donald Nelson, because practically all his interest in his entire life has been with the small-business people.

Mr. BULWINKLE. We thank you, Mr. Holcomb, and the committee stands adjourned until the executive session tomorrow morning at 10 o'clock.

(Whereupon the committee adjourned at 4:20 p. m.)

SMALL BUSINESS IN THE UNITED STATES

THURSDAY, JANUARY 22, 1942

SELECT COMMITTEE TO CONDUCT A STUDY AND INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM IN ITS RELATION TO SMALL BUSINESS IN THE UNITED STATES,

Washington, D. C.

The select committee met, pursuant to adjournment, in the caucus room, Old House of Representatives Office Building, at 10 a. m., Hon. Wright Patman, of Texas (chairman), presiding.

Present: Representatives Patman (Texas), chairman, Bulwinkle (North Carolina), Kelly (Illinois), Fitzgerald (Connecticut), Halleck (Indiana), Hall (New York), and Ploeser (Missouri).

Mr. Ira Bird Kirkland, Jr., counsel for the committee.

The CHAIRMAN. The committee will come to order.

Before we go into the scrap-iron situation from the witnesses we had requested to appear here this morning, we will hear Congressman Kirwan, of Ohio.

Congressman Kirwan, will you give your name and your district.

Mr. KIRWAN. Michael J. Kirwan, Congressman, Nineteenth District of Ohio.

The CHAIRMAN. We have a number of witnesses, Congressman. We do not want you to unnecessarily limit your talk, but since we had these witnesses come here, and we are bringing you in ahead of them, we wish you would summarize it, if you please.

STATEMENT OF CONGRESSMAN MICHAEL J. KIRWAN, OF THE NINETEENTH DISTRICT OF OHIO

Mr. KIRWAN. I represent a district, Mr. Chairman, that produces 11 percent of all the steel that is produced in the United States.

To make a ton of steel probably requires a half ton of scrap. After they get the pig iron from a blast furnace, it probably takes half, an equal amount, if they can get it, of scrap as pig iron.

I want to read this:

Nineteen of Valley's 83 furnaces shut down. With 19 of the Warren-Youngstown district's 83 open hearth furnaces idle because of the scrap shortage, including 2 of the 8 such units at Warren's Republic Steel Corporation plant, operations have dropped to 83 or 84 percent of capacity, compared to 89 percent scheduled.

Now, throughout this country, when they drop down that far in operations, in producing steel, the small businessmen suffer. There

is not a Congressman in this House that has not had some men from his district, or businessmen, to go down to try to get priorities.

Finally, they have got to close up. Now, have we got scrap? I should say, offhand, probably yes, 25, 28,000,000 tons in the country, more than that, but there are millions of tons which can be gathered in 1 week. There is no reason why it should not be.

I want at this time to read this letter. I made a talk over in the House on January 5, and from that talk I received a number of comments. This letter is typical of the rest.

I have read with great interest your speech delivered on the 5th instant, as appears on page 12 of the Congressional Record.

I believe you have hit the keynote in suggesting that some action be taken under which the several States would devise some method for collecting scrap for direct governmental use in the crisis confronting us. Personally I have upward of 2 tons of scrap iron which I would gladly donate under assurances that my country would have the immediate benefit. I have held it for some time because I was opposed to the shipment of this commodity to Japan, and for the further reason that I did not care to have it go to the ordinary purchaser for undetermined purposes.

I realize that the quantity I have is minor, but under the plan suggested, I believe a vast quantity would be available and gladly given to the Government.

Now, they will give it to the Government, from Maine to California, but they are not going to sell it. From the people that I have been talking to, I have learned they will not give it to what we term junk collectors to sell it, but we can fill the trucks that we have got in every State in the country, in the municipalities and the counties, with the Governors putting on a drive, reclaiming this scrap all over the country.

Now, one of the things that people believe today is, they just think that we drained the country by giving the scrap to Japan. That is not so. True, we shipped a lot of scrap to Japan, but today England is buying probably over half of her steel in ingot form.

The CHAIRMAN. I did not get that last.

Mr. KIRWAN. England is buying over half her steel in ingot form.

The CHAIRMAN. Ingot form.

Mr. KIRWAN. We are not rolling it in this country. It is smart of England, and all right. If anything happens to a boat, it will go down in ingot form, unfinished form, but, with that ingot form going out of this country, thousands of tons of scrap on each end of the ingots is going over to England that always went back right into the furnace, so we are losing that on every shipment that goes over, and that is why we are draining the country each day—and nothing is being done about it.

I think it is a national disgrace, not a local disgrace.

The CHAIRMAN. How would you correct that?

Mr. KIRWAN. I again repeat, by saying that every person that I have come in contact with wants to give this scrap.

The CHAIRMAN. I know, Congressman, that is good. This committee has already expressed the hope to the authorities that they at once prepare a scrap campaign that will enable the people to be of some assistance to their Government by helping to give this scrap, but the point I had in mind specifically was sending these ingots to England, and you say that is a national disgrace?

Mr. KIRWAN. You cannot correct that.

The CHAIRMAN. That is the point I want to clear.

Mr. KIRWAN. No.

The CHAIRMAN. I understood you to say that was a national disgrace.

Mr. KIRWAN. No, no. I say the scrap that is laying around this country is a national disgrace.

The CHAIRMAN. I thoroughly agree with you on that.

Mr. KIRWAN. Now, the effort that we are making now—let us say Cleveland has got a scrap drive this week—which they have. Now, would it be proper for us if we are going to push our national defense, to follow some method where we would take our soldiers in Philadelphia, send them over to the Philippines, and after they have lost just a handful of soldiers, send them off to Indianapolis? We would not do that.

Then, why are we making just scrap drives on cities? Why not summon the Governors down here to Washington?

Mr. BULWINKLE. Make it State-wide.

Mr. KIRWAN. Make it State-wide. In this thing we are in now, that is glory for all, but if they had the Governors down here, as it was done in the banking crisis, they summoned all the Governors to Washington and told them, "We are going to close your bank next week. Go home and get prepared for it."

The CHAIRMAN. Would not the highway commissions be good agencies to help collect this scrap, since they have vehicles traveling on the roads?

Mr. KIRWAN. They would be the ones, Mr. Chairman.

The CHAIRMAN. And the people could gather it and bring it out to the highway through local committees and the highway departments could bring it in.

Mr. KIRWAN. You are correct; yes.

Mr. BULWINKLE. So far so good, but after you collect it, who are you going to turn it over to?

Mr. KIRWAN. We hear a lot about scrap dealers. I say you have almost got to turn it over to the scrap dealer. He has got to separate that—the different alloys—because you cannot just dump it on the steel plant. You cannot put nickel ball bearings—

The CHAIRMAN. That mistake was made in the aluminum drive, wasn't it, putting it all together?

Mr. KIRWAN. Yes. The nickel ball bearings or bumpers of an automobile, which have got chrome in it, they cannot be thrown in an open hearth furnace. Any furnace will stand about 1½ percent of such stuff as that, and above that the heat becomes impure, so that scrap has all got to be separated.

Mr. FITZGERALD. The scrap has got to be graded, too.

Mr. KIRWAN. That is separated and grading.

Mr. FITZGERALD. That is separating, but there are different types, heavy, light.

Mr. KIRWAN. But, so far as heavy and light, if it all has one mineral, the question is, does it go right in the furnace. You can go out in the country today—there are probably, if baled up, enough coat hangers in every room in every hotel in the District of Columbia—

Mr. FITZGERALD. You are talking about steel. How about the grey iron foundries that need scrap. There are a great many, there is a great deal of defense work that takes grey iron castings.

Mr. KIRWAN. Oh, yes, yes. Your armor plate, you cannot use the type of scrap I am referring to, just to make armor plate. That has got to be separated.

Mr. KELLY. Mr. Kirwan, in the collection of all this scrap iron in the past through patriotic organizations in the States of this country, issued through the call of the executives of your cities—I notice Chicago putting on another concerted effort during this past week, of a similar drive.

Now, that is all collected by city trucks. There is no expense incurred there, and the scrap iron man testified that is hauled into the scrap iron yard, and then he sells it off at 100 percent profit.

He has incurred no expense whatsoever, outside of what incidental expense he would incur in the assorting of that iron after it reaches his place, but he pays no money for it; but I think you are right, something ought to be done to release this scrap iron that is being hoarded for the purpose of pegging prices and getting higher prices at the expense of a national calamity in this country.

Mr. KIRWAN. It is, when you learn that there are 13 furnaces not producing steel.

Mr. KELLY. I notice here an article in the Daily News of the 19th, calling attention to the fact that the scrap shortage is still a major problem in the steel industry, and it is quite an item here, and I would like to have that put into the record.

The CHAIRMAN. Without objection, it will be placed into the record. (The article referred to is as follows:)

[From the Daily News, January 10, 1942]

INGOT OUTPUT RATE IS SHADED TO 97.7 PERCENT

SCRAP SHORTAGE IS STILL MAJOR PROBLEM IN THE STEEL INDUSTRY

Steel mills of the United States are scheduled to operate this week at 97.7 percent of capacity, a decrease of 0.1 point, or 0.1 percent, compared with last week, the American Iron and Steel Institute announced today in New York.

The current week's rate is equivalent to 1,614,200 net tons of ingots and castings. Last week operations were at 97.8 percent, or 1,615,800 tons; a month ago, 93.4 percent, or 1,543,100 tons; and a year ago, 96.5 percent, or 1,537,400 tons.

Youngstown steel mill officials reported that although steel operations in the Mahoning Valley were expected to be 85 to 86 percent of capacity this week, a rise of two or four points over last week, the improvement is likely to be only temporary unless more scrap becomes available.

Republic Steel Corporation relighted one of its two idle furnaces at its Warren plant over the weekend, and Youngstown Sheet & Tube hoped to relight one of its three idle units. Carnegie-Illinois started two more last week.

Under the schedule 66 of the 83 open hearths in the valley will be active. At least 12 of the 17 idle open hearths are in condition to operate if scrap becomes available.

DELIVERIES REDUCED

Meanwhile, the magazine Steel said steel companies are tightening up further on deliveries to civilian consumers pending formation of the new War Production Board's policies.

The trade journal added that the industry still is going ahead on the basis of Office of Production Management regulations, awaiting whatever steps may be ordered by the new Board to increase production for war work.

Steel men, it added, expect renewed demand in various lines, including building materials for additional munitions plants, Army and Navy bases, and additions for those already built.

OUTPUT AT CAPACITY

"Meanwhile," the publication said, "every means possible to keep production close to capacity is being brought into play and, in spite of obstacles, output is maintained at record levels. While lack of scrap hampers production, many open hearths being idle for that reason, labor interruptions no longer cut into working time, which is a distinct gain compared with last year."

Steel reported that plate steel is in heaviest demand as ships, tanks, and other war requirements absorb increasing quantities of this product, adding that more strip mills are being pressed into service for plate production and that many users, including builders of freight cars, are allowed to use plates only from strip mills.

Mr. KIRWAN. I want to make this one little statement now. I was with the head of the Carnegie-Illinois a week ago last Tuesday, and he said the men working in the open-hearth furnaces, when they go off duty and go to their homes, gather up the tin cans and cut the tops and the bottoms out of the tin cans, and take them back to work the next day. My God, when they stoop that low, that a workman will do that on his own time, realizing the value of that steel, and here we are with millions of tons laying all over the country, and if we cannot fight and whip ourselves into a position that we are going to defend this Nation and defend those who are in uniform—

Mr. FITZGERALD. Mr. Kirwan, I agree with you about a campaign, and we should collect it. But what would be your recommendations about the enormous amount of scrap that it is impossible to collect, unless it is prepared, that is, like mining machinery, and heavy machinery that has been abandoned at mills, and so forth, that would have to be broken up before the collection.

Who would you suggest would do that?

Mr. KIRWAN. Well, the President of the United States signed an act here 3 or 4 weeks ago, drafting everybody from 18 to 64. I would say one-third of that army of civilians is running around asking what can we do to help out, and there is no leadership displayed anywhere along the line to put that army to work.

Mr. FITZGERALD. That would be a part of your suggestion?

Mr. KIRWAN. Yes.

Mr. FITZGERALD. Getting the scrap ready to be collected?

Mr. KIRWAN. The American Legion.

Mr. FITZGERALD. But there is a lot of work before you collect it.

Mr. KIRWAN. Yes.

Mr. FITZGERALD. That is the best of the scrap.

Mr. KIRWAN. The commander of a post of the American Legion at Columbus, Ohio, said there are 11,000 posts in the country, 1,100,000 men belong to them, all veterans of the last war, who touched on that and said they would be happy after they were done with their day's work to go on out and dismantle and break up the scrap that you are referring to. They have offered their services, 1,100,000 men of the American Legion, and nobody has made any effort to lead them.

Mr. FITZGERALD. I am glad to learn that, because I know, Mr. Kirwan, that in preparing scrap and getting it ready to be moved there is quite a bit of strenuous labor connected with it, and sometimes you will have to have special men, like acetylene cutters, to cut some of the scrap, it is so large.

Mr. KIRWAN. Yes, sir.

Mr. FITZGERALD. The real good scrap.

Mr. KIRWAN. I want to make this statement, and I will get out of here: I wish the chairman of the committee and the committee, when

you go down to the Smithsonian Institution, down there you will find the first jeep—

Mr. HALL (interposing). The first what?

Mr. KIRWAN. Jeep car that was developed and put into this country, in the Army.

The CHAIRMAN. Oh, did you say "jeep"?

Mr. KIRWAN. Yes; the jeeps.

The CHAIRMAN. I know what you had reference to, but I have not seen the one you refer to.

Mr. KIRWAN. Yes; the original is down there. That was developed by the Bantam Automobile Co. in Butler, Pa. Then the Government had them build 70 by hand. After they built 70 by hand, they were given an order for 3,000. They put in an assembly line. Now the Willys Co. comes along and gets an order for 160,000 units, and the one who developed them with a thousand employees in that little business is down.

The CHAIRMAN. You mean he has not got any order?

Mr. KIRWAN. No.

Mr. KELLY. They took the order away?

Mr. KIRWAN. They took the order away, to give 160,000 units to Willys-Knight.

Mr. HALL. Well, to get back to the scrap iron a minute, I understand if we got into the furnaces all the scrap iron which the big scrap dealers have now, we would not have a shortage. Is that so?

Mr. KIRWAN. Oh, I would not like to say that; no; I would not say the scrap dealers have their yards piled up, like a lot of people say they are.

Mr. HALL. Do you say they are not piled up?

Mr. KIRWAN. Yes; I say they are not, in fairness to that man. Maybe he has been lax in gathering it, or something like that, but I do not think his yards are piled up with scrap like some people say they are.

Mr. HALL. Well, we hear the stories of it right here. You can go into any of our large cities and see these piles of scrap in certain places, held by scrap dealers with the idea of making a little bit of profit, because they are holding it until it will become more necessary.

Mr. KIRWAN. No; I would not say that.

The CHAIRMAN. We have some witnesses this morning.

Mr. KIRWAN. The statement has been made that they have not collected the scrap which is laying in every back yard, every cellar, every garage, in back of every farm.

Mr. BULWINKLE. Now, Mr. Kirwan, just a minute.

It has been told authoritatively, in some instances, the scrap was collected, collected by the Boy Scouts, and turned over to the junk dealers at a nominal price—that little bit that they received went to the Red Cross or some charitable institution; like that, for war purposes, and then the dealers refused to sell the scrap until they got so much a ton for it, quite an advance, and it was practically given to them.

Mr. KIRWAN. Well, Mr. Bulwinkle, that is the case; that comes back to what I stated awhile ago. It is a national disgrace.

Mr. BULWINKLE. Well, the point that we are driving at, we want to get this scrap iron, but we do not want it delivered to anybody that is going to hoard it.

Mr. KIRWAN. Well, the Government should not allow any scrap to have in its yard—

The CHAIRMAN (interposing). Well, we have witnesses here this morning who know about that.

Mr. KIRWAN. To have over 100 tons of scrap at any time. We have got enough of them here in the District.

Mr. BULWINKLE. I know the cost of assorting automobiles and taking an automobile apart is going to be quite an amount for the fellow who does it, if you collect the graveyard automobiles.

Mr. KIRWAN. But all over the country, we could get enough good scrap if they would just take hold of the coat hangers in every room, in every home, and every hotel in the United States.

The CHAIRMAN. Thank you.

Before calling the next witnesses, I wish to state for the record that the committee in executive sessions and through numerous communications made to it has learned of a condition said to exist in the scrap-iron and steel industry which, if true, is indeed appalling.

It is beyond the pale of my imagination to conceive that when our Nation is fighting a life and death struggle with an invidious foreign enemy there could be self-seeking individuals who would deliberately hoard or otherwise impede the Government from obtaining a free and ready flow of such vital materials as scrap iron and steel into the defense plants of the Nation.

Yet, evidence has come to the attention of this committee that while mill furnaces are idle there is an available supply of scrap which is being withheld from the market or which finds its way into the defense program only after an undue toll is charged upon it.

It is the purpose of this committee to look into the truth of such charges which become even more shocking when we realize that many thousands of small independent businessmen are going to the wall and civilians are being asked to give up goods which require vital defense materials in their production. In short, we wish to discover why these mills are idle for lack of scrap.

The next witness on scrap will be Dr. Galbraith, Assistant Administrator of the Office of Price Administration.

We had the privilege and pleasure of hearing Dr. Galbraith before the Banking and Currency Committee of the House over a period of 3 months, or longer, and I know that he has some real information that he can give this committee.

Mr. BULWINKLE. He and I have differed on various occasions.

Mr. GALBRAITH. I beg pardon?

Mr. BULWINKLE. He and I differed on textiles several times.

Mr. GALBRAITH. Yes.

The CHAIRMAN. Doctor, do you have a prepared statement?

**STATEMENT OF J. K. GALBRAITH, ASSISTANT ADMINISTRATOR,
OFFICE OF PRICE ADMINISTRATION, ACCOMPANIED BY ROSWELL
H. WHITMAN, EDWARD FRANCE, AND WALLACE COHEN**

Mr. GALBRAITH. Mr. Congressman, I am not an expert myself on this vast problem.

The CHAIRMAN. Do you have someone here who is?

Mr. GAI BRAITH. We haven't got any one man, and have not been able to find any one man wise enough to find all the ramifications of the scrap iron. I have got with me these men, Mr. Whitman and Mr. France.

The CHAIRMAN. Would you like to have them sit up here to answer questions which may come along?

Suppose you identify yourselves for the record?

Mr. GALBRAITH. J. K. Galbraith, Roswell H. Whitman, Edward France, and Wallace Cohen.

Mr. Congressman, Mr. Whitman and Mr. France are immediately associated with the administration of what we call price schedule No. 4, which is the price schedule fixing maximum prices on the iron and steel scrap. Mr. Cohen and Mr. Fitzgerald are the attorneys associated with the work on that price schedule. Mr. Cohen has had particularly close experience with the problems of violation, compliance with the schedule, and also has some information which I think will be of interest to this committee on the question involving the scrap.

The CHAIRMAN. Do you have a statement which you could make to us?

Mr. GALBRAITH. I wonder, Mr. Congressman, if I could make a very general, short statement,

The CHAIRMAN. Go right ahead, Doctor.

Mr. GALBRAITH. The Office of Price Administration has been intimately concerned with the problem of iron and steel scrap for a year and a half now, either as the Office itself or through one of its predecessor agencies.

During the World War, the price of iron and steel scraps went up to levels of between \$40 and \$50 a ton, and there were probably markets and prices even higher than that.

Those high prices of scrap did not bring out substantially increased supplies as such, and the fluctuations in the prices were the meat on which the speculators in that particular field lived, that is to say, as long as the prices were going up you had an actual premium on the withholding of scrap for still higher prices, and for that reason one of the earliest commodities to which Mr. Henderson's Office turned its attention, before I was associated with the Office directly, was iron and steel scrap.

The iron and steel scrap market were under pressure in 1940. They had been under pressure for some months, partly as the result of heavy export demand.

Unfortunately, in retrospect, heavy export demand for scrap in Japan, and as, during the autumn of 1940, as the first defense program got under way the scrap prices continued to rise. Series of meetings were held, series of efforts were made to effect voluntary stabilization of the prices.

Obviously, if scrap prices go up, then steel prices go up, must eventually go up, and we would be starting on a spiral increase of scrap prices and steel prices, and steel is, of course, a widely used commodity which would affect the prices of almost everything else.

Mr. BULWINKLE. What was the price of scrap at the time Mr. Henderson took over?

Mr. GALBRAITH. At the time?

Mr. FRANCE. To speak in generalities—the market—maybe you could introduce that chart and save a lot of work.

Mr. BULWINKLE. I just wanted something for the record.

Mr. GALBRAITH. Let me cite a few figures from the chart here.

The CHAIRMAN. Not in detail, if you please.

Mr. BULWINKLE. Not in detail, but just to give us an idea.

The CHAIRMAN. Just say \$11 or \$21, whatever it is.

Mr. GALBRAITH. The quotation in scrap, \$20 a ton, Pittsburgh, for heavy melting.

Mr. BULWINKLE. At the present time?

Mr. GALBRAITH. At the present time, and that is the best figure for getting a comparable level of prices.

In the late summer, in July of 1939, under the pressure of export demand, the prices got above that level, it got up to around \$22 a ton, Pittsburgh, in 1940; at the time of the fall of France, the price was around \$17 a ton, Pittsburgh.

From that time until the end of 1940—until December 1940—it increased steadily until by the end of 1940 it was around \$22 a ton, Pittsburgh. It declined slightly then, following efforts by Hender-son's office to effect a stabilization of the prices by voluntary methods, but in the early part of 1941 started increasing again.

I am not going over the whole series of meetings that were held during that period, but eventually, in the early part of April 1941, a price schedule was established, price schedule No. 4, fixing and establishing maximum prices for iron and steel scrap, and the base price in that schedule was \$20 a ton, Pittsburgh. That is a price which is well above the long-term average of the price of scrap, as the chart indicates; twice in recent history have prices been anywhere near that level.

It is a generous price. It was deliberately made a generous price.

Mr. BULWINKLE. Well, is that a generous price for scrap that would be delivered from Texarkana, Tex.?

Mr. GALBRAITH. Could I come to that in just a minute?

Mr. BULWINKLE. Yes.

Mr. GALBRAITH. That was a delivered basing-point price based on the customary trade practices and without any provision for scrap which had a particularly heavy freight haul.

We had a goodly number of compliance problems with that schedule. We had no direct evidence to operate against the violators. Our compliance depended in a large measure upon the willingness of the mills and the foundries, the steel mills and the foundries, to observe the maximum that we had established. I think it is fair to say that with that we have had fairly good compliance with the mills throughout, and somewhat less satisfactory compliance from the foundries, but we have had repeated difficulties with violations, and by September of last year violations had become general.

The average price of scrap had moved above the schedule. On Sep-tember 2 of last year we had a meeting with all branches of the indus-try, and informed them that as of that time we were going to endeavor to force the schedule rigidly, that we were going to attempt to bring all of the powers of the Government to observing the maximum price. Just as soon as the prices departed from the scheduled prices we found invariably that the supply of scrap started to dry up, that the viola-

tions became general, the prospect of higher prices, then people stopped selling scrap and started holding for a better price.

Mr. HALL. May I ask a question? You spoke of \$20 as a handsome price. Now, should we allow anything like a handsome price at this time?

The CHAIRMAN. I do not think it is a handsome price.

Mr. HALL. But you designated it as that.

Mr. GALBRAITH. In terms of the history of the industry.

Mr. HALL. I took the witness' own words.

The CHAIRMAN. I understand, but you take from Texarkana the transportation.

Mr. HALL. Well, I would say that would be a question, depending on price; charges.

Mr. GALBRAITH. Here is the price of scrap, Pittsburgh, over the period from 1912 on. Here is the end of the World War period and here is the price [indicating chart].

The CHAIRMAN. What is that low point?

Mr. GALBRAITH. That low point is 1932.

Mr. KELLY. How much is that?

Mr. GALBRAITH. 1932, about \$8, I believe.

Mr. KELLY. About \$8?

Mr. GALBRAITH. I think it is; and this price was established by O. P. A. [indicating].

The CHAIRMAN. That is \$20?

Mr. GALBRAITH. These are all delivered prices.

Mr. KELLY. What is the price in 1928 [indicating] or that period around there?

Mr. FRANCE. 1928?

Mr. KELLY. Yes; about that time, or in that period.

Mr. GALBRAITH. Around \$15, about.

Mr. KELLY. Well, that would be the general normal price under normal conditions in America?

Mr. GALBRAITH. That is, roughly, yes.

Now, I think there are great advantages in setting what I term a handsome price.

Mr. BULWINKLE. Let me ask you this—and I do not want to interrupt you too much—but have you anyone else in your organization who could tell us what the cost would be for assorting, that was spoken of here just a few minutes ago; the selection, the assorting, the storage?

Mr. GALBRAITH. Could I come to your question in just a minute?

Mr. BULWINKLE. Yes. That is what we want, if you are coming to it later.

Mr. GALBRAITH. Since September 2 we have had relatively good compliance with the schedule. We have gained that compliance by, first of all, stressing in no uncertain terms with the buyers of scrap that we expect rigid adherence to the schedule, and then, on the whole, rigidly adhering—

The CHAIRMAN (interposing). Do you find large hoarding, as charged?

Mr. GALBRAITH. Could I ask Mr. Cohen to take that up in just a minute?

The CHAIRMAN. Sure.

Mr. GALBRAITH. Could I say one more word about compliance? We have also, where we have found evidence of serious noncompliance, as we have, on the part of a dozen or 15 firms, brought them to Washington or met with them elsewhere and faced them with their invoices and told them precisely what the effect of this noncompliance was, and, in general, with 1 or 2 exceptions we have got from all of them promises that they will comply hereafter, and we have gone back in nearly all cases and checked up and found out that they have complied. In most cases we have asked them to refund the excess charges that they made over and above the official prices, and they have done so.

Mr. HALLECK. Do you check with the fellow selling the scrap or the fellow buying it?

Mr. GALBRAITH. Mostly with the fellow buying it.

Mr. HALLECK. Selling?

Mr. GALBRAITH. Buying.

Mr. HALLECK. What is the reason for the increase in the price on the part of these few—a result of the scarcity of the scrap?

Mr. GALBRAITH. That is correct.

Mr. HALLECK. They are under pressure to get some scrap in to keep their operations going?

Mr. GALBRAITH. There has been a subsidy on the part of buyers in a good many cases where we have found or were convinced the buyers were conspiring with the sellers to get the scrap at a higher price away from somebody else, and we have asked them to hold the refund money in escrow; haven't we, Mr. Cohen?

Mr. COHEN. Most recently have asked them to donate it to the Treasury of the United States.

Mr. HALLECK. Then if the supply of available scrap increased the incentive to go above, the price would be practically eliminated?

Mr. COHEN. Absolutely. This situation arises with short supply. There is no question about that.

Mr. GALBRAITH. What does it cost to close down a furnace, Ed, and start it up?

Mr. FRANCE. That is quite hard. Do you mean to drop say 5 or 10 percent points in the operating rate?

Mr. GALBRAITH. Yes.

Mr. FRANCE. Well, it is generally conceded in the industry—that is hard to answer.

Mr. GALBRAITH. What would be the out-of-pocket cost of closing down an open-hearth furnace?

Mr. FRANCE. I could not answer that, I do not know. It depends upon, very much upon, your type of operation.

Mr. HALLECK. You set this price at a point where you believe that it would encourage the flow of scrap into the industry.

Mr. GALBRAITH. That is right.

Now, I want to come to the point that you raised about Texarkana. That price that we set, that Pittsburgh price, there is no question but it is a satisfactory price for Pittsburgh, or for the areas where the great bulk of scrap is produced, great bulk of the industrial and related scrap.

However, there is a backlog of scrap in the farm States, through the Great Plains country in the South, to Texas, and in the Mountain States, and we came to the conclusion last autumn, particu-

larly when the shortage started to become acute, that the price of \$20 a ton, Pittsburgh, was not sufficient to bring that scrap off the farms, or to bring the scrap out of the defunct mines, or to gather up the oil-well scrap, and we put into effect on September 23 what we call the remote scrap provision.

Mr. PLOESER. May I interrupt there? Do you mean that it was not a sufficient price, by the fact that there was not sufficient allowance in the price to give adequate profit plus the cost of acquiring this, or do you mean that it was not a sufficient price to give a price to cause the scrap dealers of the West to bring it in?

Mr. GALBRAITH. Well, that is a pretty hard question to answer.

Mr. PLOESER. Well, it is an important question to answer.

Mr. GALBRAITH. Well, it means identifying what the motives are in a particular case. What we wanted to do was make sure that the farmer who had a disk harrow in the corner of the field, there would be some money to come all the way back to him, which would make it worth while for him to get that disk harrow out of the corner of the field, and to get it into town, and from there on to a dealer at some central point, where it could be prepared, and from there on to where it could be used.

Mr. PLOESER. Then isn't it usually the case of a scrap man getting it from him rather than the farmer getting it to the scrap man?

Mr. GALBRAITH. Well, as far as farm scrap is concerned, you have this general situation: There is a reservation price on the stuff. It has to be a dollar for an old disk harrow or \$5 for an old disk harrow before there is enough folding money involved that he thinks it worth while to get rid of it.

You are quite right; if there is a little bit more money involved, you get more people going up and down the road looking for it. It works both ways.

Mr. PLOESER. But you still do not answer my question. I want to know whether there is a sufficient allowance in this price to make a profit to the scrap dealer to collect that scrap that you say is in the Great Plains and the Mountain—the Western Mountain States.

Mr. GALBRAITH. I do not think there is any doubt about it; there is.

Mr. PLOESER. There is?

Mr. GALBRAITH. Yes.

Mr. FITZGERALD. Well, Doctor, let me ask you a question there. Wouldn't it cost more money to send the scrap a thousand miles to Pittsburgh than it would 500 miles?

Mr. GALBRAITH. Oh, absolutely.

Mr. FITZGERALD. The price is the same; it includes the freight rate?

Mr. GALBRAITH. This remote scrap provision is simply a provision which permits the payment under the schedule of a price in excess of the equivalent of \$20 a ton Pittsburgh.

Mr. FRANCE. Let me point this out to you. The former schedule was set up on the basis of delivered price. The scrap established a floor for defense selling at a level which we felt, from the testimony we gathered, was sufficiently high to recompense all interests in the trade to gather it.

Now, that floor was \$13 a ton in prepared form for the grade which we are speaking of as \$20 a ton. Then we permit the freight absorption by the consumer up to \$5 above that \$20 delivered price at Pitts-

burgh. In short, the concession has been made to those distant points to give them an adequate price at the source, and to those consumers; and to those consumers who were interested in getting that additional volume it was represented to us to be financially able and desirous of getting this material. They absorbed the additional freight. The market is entirely made up of actual transportation costs.

Mr. KELLY. Along that point, why has Pittsburgh been singled out to establish the base price when you have got furnaces in the West?

Mr. FRANCE. Well, let me explain this further; we have, I believe, 44 basic points, of which Pittsburgh is only one. Dr. Galbraith only mentioned as being the key from the start, from which the point is always accepted as the most vital point. These other 43 basing points vary in differential according to the supply and demand of contractors.

Dr. GALBRAITH. This goes back, Mr. Congressman, to the old days of Pittsburgh plus. It was not initiated by O. P. A.

Mr. KELLY. They are still using it.

Mr. GALBRAITH. They are still using it.

The CHAIRMAN. For convenience?

Mr. GALBRAITH. For convenience; yes.

Mr. BULWINKLE. The greater part of it was originally done.

Mr. GALBRAITH. That is right.

Mr. BULWINKLE. That is the reason you base it on that.

Mr. GALBRAITH. Now, that is in a very broad general sketch, the activities of iron and steel scrap. We have half a dozen other scrap schedules.

The CHAIRMAN. Do you have a campaign that is ready now to put on, to gather in this scrap?

Mr. GALBRAITH. The Office of Price Administration, Mr. Congressman, is just a price stabilization.

The CHAIRMAN. I understand you have been consulted about it, haven't you?

Mr. GALBRAITH. Oh, we have been and we have been educating on it, too.

The CHAIRMAN. Well, do you think that plans are being formulated rather rapidly to put on a national campaign?

Mr. GALBRAITH. Well, I think that that is something that must properly—you should take up with the O. P. M.

The CHAIRMAN. All right.

Let us hear about the hoarding then.

Mr. GALBRAITH. Mr. Cohen, do you want to explain that?

I have this witness—

Mr. HALLECK. Has it been suggested in respect to the amount of available scrap coming in, that the price as fixed by the O. P. A. has been so low as to retard the movement of the scrap?

Mr. GALBRAITH. The discussion, whether the price was right, has gone on almost since the first day of the schedule; yes.

Mr. HALLECK. Do you think it is a sincere effort, or is it kind of an effort to push up the price administration to put out a higher price?

Mr. GALBRAITH. I would not generalize on that. I think some people sincerely felt the price should be higher. I think some people have advanced the plea for higher prices simply on the ground that they can't get out on the scrap which they have, and on which they make money.

Mr. HALLECK. Now, the freight differential which has been referred to here, has that existed generally in the scrap industry throughout our history?

Mr. GALBRAITH. Do you mean this remote scrap provision?

Mr. HALLECK. No, no; the fact that you have a basing point price, the more remote fellow gets less net.

Mr. GALBRAITH. That is correct.

Mr. FRANCE. That is normal.

Mr. HALLECK. That is the normal situation?

Mr. GALBRAITH. I think it is correct to say, Ed, that the remote fellow now gets more under this schedule, gets more relative to the central market than he has at any time in history.

Mr. FRANCE. Yes; there are many instances in the past where farmers, small industrial concerns in these remote territories have gone to the farm, paying the people to haul the scrap. That is an extreme case, I grant you, but they have been reconciled to accepting very low prices at the base for their scrap.

Mr. HALLECK. Your action then represents a departure from what has been the normal practice before, to stimulate the movements of scrap from more remote areas?

Mr. GALBRAITH. We are in effect subsidizing the price of scrap.

Mr. BULWINKLE. If you are through, Mr. Halleck, I want to get something about the cost.

How many different grades of scrap are there?

Mr. FRANCE. I believe the Department of Commerce classification, the Official Hand Book, lists upward of 75. From our census of the trade we found it runs into the hundreds. We have selected, I believe, 24 base grades, which comprise the vast majority of the material.

Mr. BULWINKLE. Now, what does it cost the scrap dealer to collect, grade, store, and handle his scrap iron?

Mr. FRANCE. May I break that down?

Mr. BULWINKLE. Yes.

Mr. FRANCE. We will take preparation first. That is putting it through the yard.

We conducted a series of hearings last winter and spring on an adequate preparation charge for the scrap to be taken in unprepared form, put through a yard into its ultimate prepared form. The best summation of that I can give you is the result of the field trip which a number of our accountants and analysts conducted in October. I quote from it:

It seems to be the general feeling in the trade that on the whole the \$2.50 preparation cost—that is preparation cost per gross ton—is roughly adequate.

But that had been in effect since the April schedule was announced.

Most dealers indicated that this cost is adequate for the practical every-day calculation that a dealer makes in conducting his business. However, the feeling was that for such specialized operations as bundling, costs would run between \$3 to \$4 a gross ton, and for oxyacetylene burning, from \$4 to \$7.

Mr. BULWINKLE. Now, for the purpose of the record—I understand it, but for the purpose of the record, a gross ton is how many pounds?

Mr. FRANCE. 2,240.

On the other hand, dealers handle a good deal of tonnage, principally industrial, which is already prepared and for which costs are only \$1 to \$2 for sorting. Auto wrecking costs were estimated at \$3.50 to \$6 a ton.

You can see from that the wide variation of the preparation cost depending on the type of scrap being put through.

Mr. BULWINKLE. Then, you say that for all classes of scrap the average cost would run between \$3.50 and \$4 a ton?

Mr. FRANCE. No, approximately between \$2 and \$3. I said \$2.50.

Mr. BULWINKLE. For all?

Mr. FRANCE. Yes.

Mr. BULWINKLE. But you went up to \$6.

Mr. FRANCE. That might be a little confusing. That is one isolated function in preparation, installation, burning.

Let me stand on the opening sentence:

It seems to be the general feeling in the trade that on the whole the \$2.50 preparation cost is roughly adequate.

Mr. BULWINKLE. I notice in this Institute of Scrap Iron and Steel Year Book for 1940, they estimated it at \$3 to \$3.50 a ton for these purposes.

Mr. FRANCE. I do not know the source of their information. I feel confident that we have exhausted a great many opinions on this subject of actual cost as well. Are you sure that is not taken from one isolated yard?

The CHAIRMAN. It is issued by the Institute of Scrap Iron and Steel, Inc.

Mr. FRANCE. Yes; I understand that.

The CHAIRMAN. I believe you have the same one I have.

Mr. BULWINKLE. Yes; they estimated in here, if I can turn back to the place, I put it down just now, about \$3 to \$3.50 per gross ton.

Mr. FRANCE. May I ask is that an over-all average?

Mr. BULWINKLE. That is an over-all average. It is recognized that there are many variations. Well, we will not delay it on that question.

Other scrap dealers who are comprehensive in their costing maintain that on the average it costs \$3 to \$3.50 per gross ton to handle scrap in and out of the yard, but, as previously stated, it is almost impossible to develop an average that would apply over the entire industry.

Mr. FRANCE. Well, now, here is one factor that I notice from the statement that you have read that might be the basis for the margin between the two figures. That states in and out of the yard. Now, my figure is given to you as an actual preparation cost exclusive of any in-bound freight or—

Mr. BULWINKLE. Or out-bound.

Mr. FRANCE. That is right.

Mr. BULWINKLE. That is where we got the differential, then?

Mr. FRANCE. It is possible that might be.

Mr. BULWINKLE. Now, what do you know about hoarding?

Mr. FRANCE. May I make a brief statement on that? In the correspondence that we received every day, visitors and phone calls, there are scarcely an hour passes but what someone is not charged with hoarding.

I might say this, that the major yards in the country, according to our field inspectors, and my own impression from observing them, are relatively devoid of scrap.

There are some instances that are very minor, of people who have held scrap since the last war, or beyond, people that are touched with as nearly as I can describe it, a Midas complex.

Mr. BULWINKLE. And they want antiques, too?

Mr. FRANCE. Yes; most of the complaints that we get relative to hoarding are in relatively small amounts of 150 tons, 1 ton, 2 tons, 3 tons, in the aggregate it is substantial. But it would be difficult for me to lay my finger on any pronounced accumulation barring these few exceptions.

Mr. BULWINKLE. Well, have these complaints increased in the last few months?

Mr. FRANCE. I would say they have; yes.

Mr. BULWINKLE. Especially since Pearl Harbor?

Mr. FRANCE. Yes; precisely.

Mr. BULWINKLE. All right, Mr. Chairman, I am through.

The CHAIRMAN. Mr. Halleck.

Mr. HALLECK. I have nothing.

The CHAIRMAN. Mr. Kelly.

Mr. KELLY. Well, I would just like, along that line of questioning, to know something regarding the hoarding situation.

The CHAIRMAN. Now, as to either one of these witnesses here, we haven't got to hoarding yet.

Mr. KELLY. I had met with a group of manufacturers back in the south end of Cook County around the 3d day of January of this year, which would be this month, and one man at that meeting asked to buy scrap iron to keep his place going in Indianapolis, Ind., where his producer was, or where the distributor was, rather, that this man refused to sell the scrap iron.

Now, he did not disclose who it was. He told me he would give me that information at a later date; said he did not want to, because he would be cut off completely if he did; and this man was purposely holding that for higher prices.

Now, we know ourselves from our own travels that many of these scrap-iron yards are loaded to the top with this junk, and I do not think there is any effort on behalf of O. P. M. or anybody else down here to try to release that scrap iron.

In fact, when Mr. Henderson was here the other day testifying, when that question was brought up he was more or less sympathetic. So there is hoarding going on, whether we know about it or whether you fellows know about it.

Mr. FRANCE. Maybe I can tell you what our procedure has been in instances where we have found hoarding, in cases involving relatively small amounts, I have been disposed to turn those names over to reputable people in the trade, reputable dealers, to ask them if they will solicit the people in question.

On the larger ones we have had some photographs made and we have given them every opportunity to move their scrap. Failing in that, I have referred them to the allocation department of the Office of Production Management, who have in many cases issued allocation orders on the accumulations.

Mr. KELLY. Well, I think we ought to turn it over to some governmental agency to make a thorough investigation.

The CHAIRMAN. Would you yield for one question, Mr. Kelly, please?
Mr. KELLY. Sure.

The CHAIRMAN. I have information that on May 16, 1941, Attorney General Jackson—at that time Robert Jackson—wrote Mr. Henderson that if he had evidence of any conspiracy to violate price orders to refer them to the Department of Justice for action.

Do you have any knowledge of that, Doctor?

Mr. GALBRAITH. Yes; I have.

The CHAIRMAN. Is that correct?

Mr. GALBRAITH. That is correct.

The CHAIRMAN. And on July 31, 1941, from June to July, 2 months and a few days, Henderson wrote the Department of Justice that there were 15 large brokers who dominated the industry and appeared to be in a conspiracy. Is that correct?

Mr. GALBRAITH. That is correct.

Mr. HALLECK. Fifteen large what?

The CHAIRMAN. Fifteen large brokers who dominated the industry and appeared to be in a conspiracy. In August 1941 Attorney General Biddle, who had taken charge at that time, replied that the Department would investigate.

Do you have that correspondence?

Mr. GALBRAITH. I expect—I have not got it with me.

The CHAIRMAN. It is available, is it not?

Mr. GALBRAITH. It is available; yes. Do you have it, Mr. Cohen?

The CHAIRMAN. I do not know that it would be in the public interest to insert it in the record at this time, but I would personally like to examine it.

Mr. GALBRAITH. I am sure Mr. Cohen can get it.

The CHAIRMAN. I believe the committee members would like to examine it also.

Mr. GALBRAITH. We can make it available.

The CHAIRMAN. All right, sir.

Mr. BULWINKLE. I just wanted to ask one more question that was brought to my attention.

Did you investigate the brokerage fees and the double brokerage fees on the sale of this scrap iron? Is there any such thing?

Mr. COHEN. The price schedule allows a certain minimum of brokerage, and we have had complaints that persons who are not legitimately brokers are charging those fees. In each instance when we get such a complaint, we attempt to correct it.

Mr. BULWINKLE. Well, how much are those fees?

Mr. COHEN. It is a 50 cents per gross ton commission.

Mr. BULWINKLE. That is the normal fee that is charged.

Now, have you known of any instances where that occurs, of the doubling up on these, the double brokerage fees?

Mr. COHEN. We have had no information concerning that. I do not think we have had one complaint concerning the doubling of brokers' commission.

Mr. BULWINKLE. All right.

The CHAIRMAN. Since you are the one that handles the hoarding, is it your opinion that 15 large concerns control the scrap industry in America?

Mr. COHEN. Well, I think at that time the major part of the production of the scrap was in the hands of the 15 large brokers.

The CHAIRMAN. Do they dominate the market pretty well now?

Mr. COHEN. At this time, I do not know.

The CHAIRMAN. You do not know?

Mr. COHEN. At that time I felt—

The CHAIRMAN. Well, why don't you have an opinion on it now as you had then? You have been in that business all the time, I mean the same business you are in now?

Mr. COHEN. Well; yes and no.

The CHAIRMAN. Well, haven't you been with the Department ever since that time?

Mr. COHEN. Yes. I have not been counsel for the Iron and Steel Scrap Section for several months now, and I was with it during a very difficult period in the summer and early fall. At that time information of the fact that there was, there seemed to be a tendency not to move scrap, and there seemed to be agitation on the part of some people to get higher prices for their scrap. We concluded that the purpose of the agitation was to speculate and make money on the withholding of scrap.

Now, it is true that there are some large concerns in this country, large brokers, who have financed a number of smaller dealers, and they have rather a persuasive argument for doing it, stating, of course, that because of the financial weakness of the smaller dealers they have to finance them in order to get out the scrap—sometimes financing several hundred dealers.

With that sort of structure, it seems to be made to order for withholding in the event that a particular dealer or broker wants to get higher prices for his scrap.

The CHAIRMAN. Would it be desirable for the R. F. C. or some Federal agency to make these advances so as to get them out from under the grip of the larger concerns?

Mr. COHEN. I have no opinion on that, sir.

The CHAIRMAN. You have no opinion on it?

Mr. COHEN. No.

The CHAIRMAN. Well, it would at least get them from under the thumb of the large dealer; wouldn't it?

Mr. COHEN. It would seem to have that effect; yes.

The CHAIRMAN. Is that rather general, or is that just isolated cases?

Mr. COHEN. I think that generally exists in the industry.

The CHAIRMAN. You say it is general?

Mr. COHEN. Yes.

The CHAIRMAN. Well, wouldn't you think it would be in the public interest, then, to have some way to separate these little fellows from the big fellows, and have some other system of financing, which would be perfectly safe?

Mr. COHEN. There certainly could be no harm in it, but the question arises whether or not the small dealer would have his output for the flow of scrap in the event that you moved the structure.

The CHAIRMAN. Well, if there is a scarcity of scrap, he would certainly have an outlet for it; wouldn't he?

Mr. COHEN. I beg your pardon.

The CHAIRMAN. If there is a scarcity of scrap, and if that scarcity continues, there would be no doubt about him having an outlet; would there?

Mr. COHEN. Under present conditions, I would say that if the allocation program was inaugurated by the Office of Production Management, that by utilization of the smaller dealers who were properly financed, undoubtedly you would increase the flow of scrap some.

The CHAIRMAN. Do you mean to say that if the big dealers do not finance them, that they would refuse to give the little dealers an outlet for their product?

Mr. COHEN. Well, I cannot say that they would.

The CHAIRMAN. Do you think it would have a tendency to impede?

Mr. COHEN. It would probably result.

The CHAIRMAN. It would probably result?

Mr. COHEN. Yes.

The CHAIRMAN. Could not you do like Mr. Odlum is doing in his Small Business Section—get them together and let them pool their resources, pool their scrap, and send it over at the same time; that could be done, couldn't it?

Mr. COHEN. I believe it could.

The CHAIRMAN. Now, what evidence do you have of hoarding by any of the large scrap dealers? Do you have any at all?

Mr. COHEN. I think Mr. France explained the extent of our operation of hoarding to you very well. The reason we went into taking pictures of piles of scrap was because we were under pressure of these prices and because we suspected. So we found out by spot checking that there was scrap, and we do know from our statistics that there has been a tremendous increase in the flow of scrap, despite the fact we have had price control on it over the last year.

So we were definitely convinced that there was no necessity for increasing price, and probably increasing the price would result in more withholding of scrap.

Now, these pictures that I have here, as I said, are only a few and only represent a spot check.

The CHAIRMAN. Suppose you pass a few of them over.

Mr. COHEN. These pictures were taken a month apart.

Mr. GALBRAITH. Are those in series, Mr. Cohen, so they can see?

Mr. COHEN. Yes.

Mr. FITZGERALD. Mr. Chairman, may I ask a question?

The CHAIRMAN. Go right ahead.

Mr. FITZGERALD. It has been testified, Mr. Cohen, here today, that there is hoarding going on in the country. What I would like to know is, is there any legislation that you know of on the Federal statutes at the present time that can take the scrap and pay a certain price for it?

Mr. COHEN. Yes. I understand, under the requisitioning powers the Office of Production Management and the Army and the Navy have that they can reach that scrap, and I think that the O. P. M. has been considering using its requisitioning powers for the purpose of reaching the scrap that is being withheld.

Mr. FITZGERALD. Well, considering it how long?

Mr. COHEN. That I do not know.

Mr. FITZGERALD. Well, we know there is a shortage of scrap—everybody knows that—and we know that MacArthur is stuck over in the

Philippine Islands without ships and enough guns and enough soldiers to get them over there. Don't you think it is about time somebody made up his mind to move and take this scrap?

Mr. GALBRAITH. May I make a comment on it, Mr. Congressman?

Mr. FITZGERALD. Yes.

Mr. GALBRAITH. The Office of Price Administration has been concerned with this matter only indirectly, in that we have no authority under the Executive order under which we operate, to undertake campaigns to increase the supply of scrap or to stimulate the flow of scrap. We have been interested in this hoarding matter because it has been a device by which pressure has been put on us for higher prices, and it was for that reason we sent the cameraman out to take the pictures, merely to get a little brief on our side.

Mr. FITZGERALD. Of course, that is all right. We know we need scrap. It has been testified here that there are 12 furnaces in one town which have been closed down. It has been testified before this committee that many small businessmen are going out of business today for want of steel, and still there is an enormous amount of scrap around the country. It would seem someone should move in the direction of getting it.

Mr. GALBRAITH. I am merely saying I think the question is for the Office of Production Management, or what was until yesterday the Office of Production Management, rather. This office is concerned with prices. We have, as I say, gone into this matter, but merely for the sake of keeping up our own guard by showing that there were some people who had more than, shall I say a charitable interest in the question of higher prices?

Mr. FITZGERALD. Well, to me, Doctor, it seems as if the Office of Price Administration says \$20 is a fair, or a handsome price—your word, handsome price—for the scrap. The industry apparently says it is not, that they evidently want more money to handle it.

Now, we are not getting the scrap. What I want is scrap. I want guns, and tanks, and ships, and everything else, to lick Hitler and to lick him just as fast, and Japan with him, as fast as we can do it, and I don't want anybody to stand in the way of doing it, no matter who he is, in this country.

Mr. GALBRAITH. I do not think there can be any disagreement between us on that, Mr. Congressman. The thing I would like to express is this, that it is our own judgment, our very carefully considered judgment, that the price now being paid is sufficient and handsome return for the maintenance of large output on the part of the scrap industry. If it is increased to keep these mills going—and they must be kept going—the increase will have to be done by scrap campaigns, or requisitioning of hoards, and by other methods rather than by a further increase in the price.

Mr. FITZGERALD. Well, it has been suggested here, Doctor, that a campaign will be put on to gather up scrap. Now, what I would like to ask you is this: A certain amount of scrap can be picked up, the same as the aluminum, where people can go down and throw maybe a grate stove or the cover of a stove into a pile, but do you really believe that the ordinary person that needs machinery and equipment can go out into a sawmill, or out into a mill or factory that has been

deserted, take apart big engines that need certain machinery to be used in order to handle this heavy scrap; do you think that can be done by an ordinary campaign in a city or a town?

Mr. GALBRAITH. Well, I think that we have to distinguish between certain types of campaigns. I will be perfectly frank.

Mr. FITZGERALD. Well, we are talking about a scrap campaign now.

Mr. GALBRAITH. I would not like to see a scrap campaign conducted—

Mr. BULWINKLE. As the aluminum campaign?

Mr. GALBRAITH. As the aluminum campaign was conducted.

Mr. FITZGERALD. I am just using it as an illustration, while the small pieces of scrap can be handled by the human hand, there is a great deal more scrap in sawmills and mines, and other places that need machinery, that means that you have to get to them acetylene cutters to handle this scrap.

Mr. GALBRAITH. That is correct.

Mr. FITZGERALD. Do you believe that that can be done by an ordinary campaign?

Mr. GALBRAITH. No; but a great deal can be done; when I talk about a campaign I have reference to a campaign which makes use of the existing machinery of the industry, of the scrap-collecting industry. Now, a great deal can be done, I think Mr. France will back me up in this, a great deal is possible in terms of speeding up the rate, of dismantling the obsolete machinery, obsolete buildings, obsolete steel structures of one sort or another, and putting that material into the regular channels to move it to the point where there are furnaces.

Mr. FITZGERALD. Do you mean by the public? It has been suggested by the American Legion.

Mr. GALBRAITH. By the Government.

Mr. FITZGERALD. Oh, by the Government. You are saying the Government, not by the American Legion, and I thought that was the public in general. I can see a lot of difficulty in going out and organizing one of those campaigns and handling this scrap. There is a certain amount they cannot handle. They can break it with a hammer, but there is a great deal of scrap which has got to be taken apart.

Take an automobile, for instance, there is a lot of scrap steel, and aluminum, bronze, brass. That takes a lot of work and it takes time and it takes a man who knows it. How would you organize a campaign of that kind?

Mr. GALBRAITH. I would like again to refer that question to the Office of Production Management. They are the people who are responsible for this sort of activity. Any answer which I would give would be the answer of one who has not thought about it, because he has not been told to think about it.

Mr. FITZGERALD. Well, of course, it is all right to say we should have a campaign, but when you are handling one of these I can see a lot of work in one of these campaigns, and I can see that a lot of equipment has got to be used.

Mr. GALBRAITH. That is correct.

Mr. FITZGERALD. In order to get the scrap that is around in these graveyards. Everybody sees it. It is an eyesore in America today. In my State we passed a law to build a fence around them, so they

would be hidden from the view of people traveling. That is what we thought about it in Connecticut, where we know they are an eyesore.

You cannot go out of Washington north, east, south, or west, any direction, any road, you cannot go a hundred miles without seeing these eyesores, graveyards; but it takes work to take these autos down and separate the scrap. I do not know—I have some doubt in my mind whether or not it can be handled by a civilian drive.

Mr. COHEN. May I supplement your remark, Mr. Galbraith, on the question of requisition. Again, I think it ought to be made clear the O. P. A. has no power of requisition. O. P. M. has the power of requisition.

Mr. KELLY. Under an act of Congress that authority was delegated to the President on the 27th day of May 1941, and he can delegate that authority to any governmental agency.

Mr. COHEN. That is right, but we do not have the authority.

Mr. KELLY. Well, he has not delegated the authority or power.

Mr. GALBRAITH. After all, these things have to be taken in an orderly administrative way, and the task of stimulating people, of which this is one part, is the job of a war production board.

Mr. KELLY. That is what we are trying to find out right at this time.

Mr. GALBRAITH. Well, before we go on, might I introduce one further photograph? We have had considerable trouble with what is called upgrading, that is, selling a lower grade of scrap as a higher grade. The highest grade of scrap, as you know, is No. 1 heavy melting. That is prepared scrap ready to go into the open hearth, and made up of heavy steel scrap.

This photograph which I introduce merely as a matter of interest, is one photograph of a collection of supposed No. 1 heavy melting scrap.

The CHAIRMAN. Now, on that very point. I want to ask a question on that, gentlemen.

Who grades this scrap? Do you have someone to grade it?

Mr. GALBRAITH. Well, the story is this: Up until a few weeks ago we depended upon the mills and their suppliers to undertake the grading.

The CHAIRMAN. Do you have any power at all over these grades?

Mr. GALBRAITH. Only powers of moral suasion.

The CHAIRMAN. Publicity?

Mr. GALBRAITH. That is right.

The CHAIRMAN. And exposure.

Mr. GALBRAITH. That is correct.

The CHAIRMAN. That is all the power you have?

Mr. GALBRAITH. Now, within the last few weeks, we have recruited a corps of inspectors.

The CHAIRMAN. Now, where do these inspectors come from; where did you get them? Did you get them from the Government service or the industry?

Mr. GALBRAITH. Where did we get them?

Mr. FRANCE. The ones we have hired today have been recruited from the steel mills themselves, where the men in question have been active over a long period of time as inspectors of scrap at their respective mills.

The CHAIRMAN. Where they purchased it from the scrap dealers? Mr. FRANCE. That is correct; so they have a full and thorough acquaintance with the various grades.

Mr. GALBRAITH. And we shift them around.

Mr. FRANCE. That is correct.

Mr. GALBRAITH. So that an Inland man is over at Bethlehem mill.

Mr. BULWINKLE. You say the basic freight rate is to Pittsburgh. Now, what other places in the United States is this scrap shipped to; Denver?

Mr. FRANCE. As I said, I believe there were 44 basing points.

Mr. BULWINKLE. All right.

Mr. FRANCE. The difference in geographical differential being the difference between Chicago and Pittsburgh, is \$1.25 a ton. The same grade we speak of as \$20, Pittsburgh price of steel, is \$18.75 Chicago.

Mr. BULWINKLE. Well, the price is the basic freight rate to the nearest point, is it not, not the haul to Pittsburgh.

Mr. FRANCE. No. See, one of our primary objectives in not setting up a number of delivered basing points, with variation in price, was to circumscribe certain areas.

Mr. BULWINKLE. That is what I want to find out, whether you did that or not.

Mr. FRANCE. Absolutely, to avoid cross hauling, but to freeze an existing condition whereby the industry would not haul scrap to Pittsburgh and back to Chicago again.

Mr. BULWINKLE. I was wondering if the man in Texarkana would get the basic rate to Pittsburgh when he was shipping to St. Louis?

Mr. FRANCE. To answer your question that way, the man, the shipper in Texarkana can ship to the best market in the country. Is that clear?

Mr. BULWINKLE. Yes; but you put a ceiling on it.

Mr. FRANCE. That is true.

Mr. BULWINKLE. So you have got now the best price.

Mr. FRANCE. Well, it is the best in the sense that it is the best as developed by the highest basing point price, less the lowest freight.

Mr. BULWINKLE. I did not want that fellow in Texarkana to get this freight rate to Pittsburgh when he was only shipping to St. Louis.

Mr. FRANCE. Oh, no, no.

Mr. BULWINKLE. That is what I was talking about.

Mr. FRANCE. No, no. That is not possible.

Mr. BULWINKLE. All right.

Mr. HALLECK. I would just like to get it clear in my mind, what we are trying to get at here. In the first place, it is your view that scrap to be collected would have to go through the regular channels, and I find myself in agreement.

Now, assuming that you have fixed a fair price—

Mr. GALBRAITH. I do not speak officially on that point, but that is my own personal view.

Mr. HALLECK. I might say that that is my view, because to try to go out here and set up independent organizations to collect the scrap, and to do whatever is necessary to get it in shape to sell it to the consumer would be to duplicate facilities that we already have, and would lead to possibly a lot of criticism. But now as-

suming that you have set a fair price, and we do go out here, as has been done in many cases, from a patriotic effort on the part of citizens' organizations, and get a lot of scrap collected, apparently what has happened is that scrap has gone into the hands of a lot of dealers who apparently may have thought your price was not good enough.

Now, this thing just occurs to me, if the price is fair, and the scrap is there, and it has to clear through that way, then if it is not forthcoming, why it would look to me as if the Government ought to move on that as quickly, say, as they moved on the automobile dealers when they say to them, "You cannot sell an automobile," you ought to go and get the scrap and see that it comes in to do the job that has to be done.

Mr. GALBRAITH. I must say I thoroughly agree with you with this reservation, that Mr. France makes, we are not certain that there is a great body of scrap there, particularly in the large dealers. Our information in the case is that they have kept their scrap moving pretty well.

Now, if there are hoards of scrap, large or small, I thoroughly agree with you, it is the Government's responsibility to get it.

Mr. HALLECK. I would not want to go out to my country, and head up a campaign, or take part in a campaign, to get the farmers and everybody to go out and haul their scrap in, and then know that after they give it in and it was concentrated in the hands of people who ought to be turning it in to the defense effort, these people were sitting on it in the hope that you fellows would increase your price ceiling.

Mr. GALBRAITH. One thing I would like to have the record show clearly is that we have no information that the amount of scrap so held is large. We do know that there are isolated hoards here and there, that there are people, as Mr. France states, touched with the Midas complex, who are engaged in unpatriotic hoarding, but we have no evidence that the tonnage of such scrap would be a substantial factor in correcting the scrap shortage that we face.

Mr. HALLECK. Well, I appreciate that you are interested in price, and that your interest in quantity is small, incidental to the determination of a fair price.

Mr. GALBRAITH. Our interest in the quantity has been, frankly, that we wanted to make very certain that people that were ginning up for higher prices were not doing it because they had hoards of scrap.

Mr. HALLECK. I think you should take that into account, and I am glad to hear that you did; but now, what you are going to do, if there is a reluctance to move this scrap into the channels of trade, to the consumer where it is needed—why that is somebody else's responsibility.

Mr. GALBRAITH. That is correct.

Mr. HALL. Right along that line, Doctor, if the volunteers do go out and spot this scrap and collect it, and then it must go through these regular channels—now, the spotting and collection must be one expense the dealer has, so if that is taken out of his hands by a volunteer group, isn't the profit going to be greater to the dealer, and why should he get, as you say, this handsome price of \$20 a ton on scrap

spotted and collected by a volunteer group? Why should not the price be changed if we carry out that program?

Mr. GALBRAITH. I would like to have Mr. France answer the question.

Mr. FRANCE. If I understand your question, perhaps this is the answer to your question, that that margin you are speaking of has in the few popular campaigns, as we call them today, been donated to a charity. Are you under the assumption that that margin will be a windfall to the dealer?

Mr. HALL. That is what I am wondering.

Mr. HALLECK. If I might intervene, because I hail from a little city in Indiana, where we have these junk dealers, and if a fellow brings in an old car, they take the aluminum out, they take the frame out, and they have a big power scissors, and they cut it up and get it ready to ship, and they get a carload of it ready.

I did not mean to interrupt you.

Mr. HALL. No. What I am getting at, of course, is the spotting, finding, and collecting this junk as an item of expense to the dealer. If the public does that through a volunteer group, what becomes of that item of expense? Does that just stick in the pockets of the dealer, or does he donate that to the Government, or what happens to it?

Mr. FRANCE. As I say, our experience on these popular campaigns has been rather small. Some of these other gentlemen probably could give you more information, but I have in mind one campaign which was run out in Ohio, whereby the citizens brought their scrap in and donated it and it runs in my recollection that was open to competitive bids.

Mr. HALL. That would answer the question, if they do it that way.

The CHAIRMAN. I want to ask some questions.

Are you satisfied with the way this scrap campaign has been conducted through the dealers? In other words, are you satisfied that everything has been done that should have been done to make these dealers release this scrap that they have been keeping on their premises?

Mr. GALBRAITH. Well, I would prefer not to answer that question.

The CHAIRMAN. Well, why should you prefer not to answer it? Why should you not? It is an opinion, and you are in a position of authority; you are representing the Government. We are in war, and we need this scrap. Are you satisfied it is coming in all right?

Mr. GALBRAITH. You are putting me in a position of passing judgment on the activities of another agency.

The CHAIRMAN. Well, it is under you, isn't it?

Mr. GALBRAITH. No; it is not under my direction.

The CHAIRMAN. Aren't these gentlemen under you?

Mr. GALBRAITH. They are; yes.

The CHAIRMAN. Well, didn't they have anything to do with the enforcement of it?

Mr. GALBRAITH. They had to do with the enforcement of it; yes.

The CHAIRMAN. Therefore, it is under you?

Mr. GALBRAITH. The organization of scrap collection is under the Office of Production Management.

The CHAIRMAN. Well, who is the person that I can ask that question of?

Mr. GALBRAITH. I think that Mr. Rosenwald is the appropriate person.

The CHAIRMAN. Is he here? Who is Mr. Rosenwald?

Mr. COHEN. He is head of the conservation program.

The CHAIRMAN. Conservation program. Well, he is the man we ought to have, isn't he?

Mr. GALBRAITH. It is in Mr. Rosenwald's department that this activity falls.

The CHAIRMAN. Now, who do you represent, Mr. Cohen?

Mr. COHEN. I am with the Office of Price Administration.

The CHAIRMAN. Well, do you have anything to do with the enforcement of these rules and regulations?

Mr. COHEN. Only with respect to price.

The CHAIRMAN. Only with respect to price?

Mr. COHEN. Yes.

The CHAIRMAN. Well, do you know the names of these concerns, the 15 that are supposed to dominate the industry?

Mr. COHEN. Well, I do not recall the list, the complete list—when I submit that material to you, you will be able to get that.

The CHAIRMAN. We will have the list with that in there?

Mr. COHEN. Yes.

The CHAIRMAN. Who is the largest dealer in scrap in the country?

Mr. COHEN. Mr. France, I think, will answer that.

Mr. FRANCE. I may state this, to the best of my knowledge, all of them are closed companies. Very few of them are incorporated. The figures are not available to the public, and it would just be a guess on my part. I do not know and I doubt if anybody has ever seen volume figures.

The CHAIRMAN. Well, who are the four or five largest?

Mr. FRANCE. Oh, I would say they are well scattered geographically. Luria Bros. in the East.

The CHAIRMAN. Who?

Mr. FRANCE. Luria Bros. in the East.

The CHAIRMAN. How do you spell that?

Mr. FRANCE. L-u-r-i-a.

The CHAIRMAN. How many yards do they have, approximately?

Mr. FRANCE. I am just guessing. I would say four or five.

The CHAIRMAN. And then do they furnish money to smaller dealers to gather scrap for them?

Mr. FRANCE. Yes; although it is my understanding that Luria Bros. yard operation has been declining in importance.

The CHAIRMAN. All right. You have named a declining one. Name one of the biggest ones that is still going.

Mr. FRANCE. Well, let me point this out. The 15 people I think you questioned Mr. Cohen on were largely brokers.

The CHAIRMAN. They are largely brokers?

Mr. FRANCE. Yes.

The CHAIRMAN. You mean they handle the yards by furnishing money to them?

Mr. FRANCE. They conduct a brokerage business. That is, they will buy from a small or medium-sized yard, and broker it, furnish the outlet for it.

The CHAIRMAN. Furnish the outlet for the scrap?

Mr. FRANCE. Yes.

The CHAIRMAN. And they furnish them the money to buy the scrap?

Mr. FRANCE. That is my understanding. They finance them; yes. I think I can answer your former question about a large dealer. I have in mind Shavone Bonomo Corporation.

The CHAIRMAN. How many yards do they have?

Mr. FRANCE. I believe two or three. There is only one large yard, that is in northern Jersey.

The CHAIRMAN. Is there any scrap dealer that is operating all over the Nation, say from Portland, Oreg., to New York City?

Mr. FRANCE. No.

The CHAIRMAN. None?

Mr. FRANCE. No.

The CHAIRMAN. I notice in these pictures, some of them are Portland, some Troy, N. Y., and some in Jersey, I thought they were the same concern. I guess I was mistaken about that.

Mr. FRANCE. In New York and New Jersey.

The CHAIRMAN. In New Jersey, Troy, New York, and Portland, Oreg.

Mr. FRANCE. No; I think the one in Portland was Silver Bros.

The CHAIRMAN. And they do not operate in the East, Silver Bros. do not operate in the East?

Mr. FRANCE. They operate in Portland.

The CHAIRMAN. Portland, Oreg.?

Mr. FRANCE. Portland, Me., that is.

The CHAIRMAN. I beg your pardon. I thought it was Portland, Oreg.

Are you satisfied with the way this scrap campaign has been conducted through the dealers and brokers?

Mr. FRANCE. Well, I will repeat what Dr. Galbraith has said, that I would like it clearly understood that we have no function whatsoever in procurement, and what data I have given you of these pictures, and my remarks about letters coming in, are distinctly incidental, and I think I made it clear that that information, as promptly as we received it, was delegated to the proper authority at the Office of Production Management.

The CHAIRMAN. Now, the reason you took those pictures, you had an idea they were hoarding this scrap?

Mr. FRANCE. That is true.

The CHAIRMAN. And you were convinced from the pictures that they were?

Mr. FRANCE. That is true.

The CHAIRMAN. And they were hoarding it?

Mr. FRANCE. Right.

The CHAIRMAN. And has anything been done to keep them from hoarding it?

Mr. FRANCE. As I say, immediately upon receipt of the second set of pictures, taken at a month's interval, those pictures were made available to the Scrap Division of the O. P. M.

The CHAIRMAN. What did they do with it?

Mr. FRANCE. I understand on one of these lots they have allocated it.

The CHAIRMAN. Allocated it?

Mr. FRANCE. Yes.

The CHAIRMAN. How were they made available; did you take them to them?

Mr. FRANCE. I showed them to them.

The CHAIRMAN. You showed them to them?

Mr. FRANCE. Yes, immediately.

The CHAIRMAN. Did you take them to the Department of Justice?

Mr. FRANCE. No.

The CHAIRMAN. Well, the Department of Justice would be the one to enforce the law, the criminal law against them if there are any criminal laws that would apply to them, would it not?

Mr. FRANCE. If there were any criminal laws.

The CHAIRMAN. Are there, Mr. Cohen? You are an attorney?

Mr. COHEN. Yes.

The CHAIRMAN. Are there any criminal laws?

Mr. COHEN. It would depend on whether there was a combination in restraint of trade. As a matter of fact, the Justice Department saw those pictures.

The CHAIRMAN. Well, you are convinced that there was a conspiracy, Mr. Cohen?

Mr. COHEN. At this stage?

The CHAIRMAN. At that stage.

Mr. COHEN. Well, in the summer—

The CHAIRMAN. What is that?

Mr. COHEN. In the summer of 1941.

The CHAIRMAN. There was?

Mr. COHEN. We suspected that there was.

The CHAIRMAN. And did you do anything about it?

Mr. COHEN. We sent them to the Department of Justice with the suspected—

The CHAIRMAN. That was in July 1941?

Mr. COHEN. Yes. And the Department of Justice investigated it.

The CHAIRMAN. Well, you bring me that correspondence that has got the names of these 15 brokers in it. I am not satisfied. It looks to me like there is a nigger in the woodpile somewhere. All these scrap dealers conspire and hoard this scrap, there are pictures showing it, nobody seems to be doing anything about it, just letting it go.

That scrap is still there, isn't it?

Mr. COHEN. I would like to qualify that statement somewhat, because the pictures you have seen is not the entire story. Most of that scrap is unprepared scrap, and to prepare scrap you must have equipment, shears, and other equipment.

Mr. BULWINKLE. Haven't these yards got it?

Mr. COHEN. Some of them have, some of them do not have enough.

Mr. BULWINKLE. What have they done with what they have?

The CHAIRMAN. Why don't they send it to one who has got it?

Mr. COHEN. Because it is not the sort of equipment that can be moved around, although I understand that some yards have gotten mobile equipment. Isn't that right, Mr. France?

Mr. FRANCE. That is right.

The CHAIRMAN. Who is Mr. Borinstein? Isn't he one of your men in the Scrap Division?

Mr. COHEN. No. He is with the Office of Production Management.

The CHAIRMAN. He is the man you gave this information to; is that right?

Mr. COHEN. One of his assistants.

Mr. BULWINKLE. Who did you give it to?

Mr. COHEN. Mr. Miller.

The CHAIRMAN. You gave it to Mr. Miller?

Mr. COHEN. That is right.

The CHAIRMAN. Now, don't you have a law on the statute books now, recently passed, relating to hoarding, that would be of assistance to you in this particular situation?

Mr. COHEN. Well—

The CHAIRMAN. No. I guess it is in this price bill pending in Congress. You will be able to effectively deal with them if that bill becomes a law like it is, in Congress.

Mr. COHEN. The whole trouble of hoarding, and allocation, is a pretty terrific problem; that is, it requires quite a bit of administrative set-up.

The CHAIRMAN. Well, gentlemen, when you get through with this gentleman from O. P. A., I want Mr. Borinstein to come around, because he is with O. P. M.

Mr. BULWINKLE. I want to ask this question of Dr. Galbraith as well as these others who have said that this case did not come under their supervision, this matter of hoarding at all, but yet you went to the trouble of taking pictures to show that some were hoarding.

Mr. GALBRAITH. May I repeat what I said on that before?

Mr. COHEN. I think Dr. Galbraith made the statement before that the only reason we took the pictures was because we were under pressure from members of the industry to raise prices, and we wanted to satisfy ourselves whether or not the reason for the scrap not flowing was for the purpose of speculation, or whether they were not getting enough money for their scrap.

Now, that is all we tried to ascertain. We also wanted to make a record in the event that the industry attempted to establish against us that we were causing, we were retarding the flow of scrap, by reason—

Mr. BULWINKLE. Then, we come back to the proposition, as far as your branch was concerned, it was not on account of hoarding at all.

Mr. COHEN. What was not?

Mr. BULWINKLE. The taking of the pictures, and the other things that you did.

Mr. COHEN. That is right.

Mr. BULWINKLE. But then, notwithstanding that, you presented this to the O. P. M.

Mr. GALBRAITH. Well, may I comment on that?

Mr. BULWINKLE. Yes.

Mr. GALBRAITH. We are all, after all, part of the war effort. This was information which the O. P. M. should have and had a right to have, and as I say—we had gone after it for the purpose of satisfying ourselves that the pressure to raise the prices was not simply a pressure for a windfall again on the part of somebody with a yard full of scrap.

Mr. BULWINKLE. You just showed Mr. Miller, of O. P. M., these pictures, and then left it at that?

Mr. COHEN. No; that is not all that was done. As a matter of fact, we met with representatives of the Office of Production Management to work out a procedure whereby we would certify to them—

Mr. BULWINKLE. All right.

Mr. COHEN. This matter has been presented to them, as I understand it, and I think O. P. M. ought to speak for itself on that.

Mr. BULWINKLE. Just when was that that you presented these pictures, what date?

Mr. COHEN. I cannot give you the date.

Mr. FRANCE. I am responsible for that. I presented the list, and Mr. Miller, as I remember it, was immediately in receipt of the pictures.

Mr. BULWINKLE. How long ago was that?

Mr. FRANCE. The pictures were taken late in October and late in November.

Mr. BULWINKLE. Well, then, even so, did you present them to O. P. M. to formulate a policy and then no policy has been formulated up to this date, has it?

Mr. FRANCE. Well, that is a question for the O. P. M.

Mr. BULWINKLE. Well, as far as you know.

Mr. FRANCE. As far as I know there was one, because in there is one which shows a sizable amount of prepared scrap, and that is Mr. Silver's collection in Portland, Maine, which I understand was allocated to one of these Pennsylvania steel companies by the O. P. M.

Mr. BULWINKLE. But there is no general policy, as far as you know, which has been formulated by O. P. M. up to this date?

Mr. GALBRAITH. I think, Mr. Congressman, that is purely a question which the O. P. M. should answer.

Mr. BULWINKLE. I said as far as he knows. Now, you know whether or not there has been any.

Mr. FRANCE. Well, may I make this point very clear, that I am employed by the Office of the Price Administration.

Mr. BULWINKLE. I don't care who you are employed by. You took this to a certain agency for the purpose of making a policy, and as far as you know now no policy has ever been formulated?

Mr. FRANCE. I did not say that.

Mr. BULWINKLE. Well, has there one been formulated?

Mr. FRANCE. I believe there has been; yes.

Mr. BULWINKLE. Well, have you seen a copy of that policy, or do you know anything about it?

Mr. FRANCE. The extent of my information was that this one lot was allocated. Whether additional ones were or not, I do not know. I would prefer that that question be—

Mr. BULWINKLE. The one proposition I am trying to get at—I don't want you to evade my question, because I am trying to find out what that policy is.

Mr. FRANCE. May we bring in another witness to answer this question?

Mr. BULWINKLE. All right. If you cannot answer it.

The CHAIRMAN. Yes; bring him in.

Mr. MILLER. Here.

STATEMENT OF ALEX MILLER, OF THE OFFICE OF PRODUCTION
MANAGEMENT

Mr. BULWINKLE. Has any policy been formulated since this went into effect?

Mr. MILLER. Since what went into effect?

Mr. BULWINKLE. Since these gentlemen showed you these pictures?

Mr. MILLER. I saw these pictures on the afternoon of the 24th of December, and since then some of this stuff has been allocated, some stuff was allocated before the 24th of December.

Mr. BULWINKLE. Well, did you formulate a policy because you saw the pictures?

Mr. MILLER. No. We had the policy before then.

Mr. BULWINKLE. All right.

Mr. HALL. What is the policy?

Mr. MILLER. The policy is this—

The CHAIRMAN. Get him a chair.

Mr. MILLER. I do not mind standing up; I don't mind at all.

(A chair is furnished and the witness is seated.)

Mr. MILLER. Whenever anyone reports to us or we find that anyone has held scrap for any reason whatsoever, we immediately allocate that scrap to either a steel mill or to a foundry that is in need of this scrap for the production of important defense materials.

Mr. HALL. Well, you say when you get information. Now, have you any field organization, or do you just depend upon somebody coming in and telling you?

Mr. MILLER. We now have some field organization.

Mr. HALL. What do you mean by "some"?

Mr. MILLER. We are putting men on every day; at the present time we have about eight men.

Mr. HALL. Eight men covering the country?

Mr. MILLER. Yes. Now, we have the best organization imaginable now. Other than the eight men, in making these reports, especially since Pearl Harbor, the scrap-iron industry themselves have taken it upon themselves to report anyone in their own line of business, as to who is holding scrap and not shipping it. We have been getting that information right along, especially since Pearl Harbor, from the Scrap Iron and Steel Institute, and whenever we get any such report we immediately have allocated that scrap.

Since the 29th of October we have made about 450 allocations of scrap. Of course, not all of these allocations cover hoardings by any means.

Mr. HALL. Well, do you agree with the statement here that there has been quite a bit of hoarding, so far as scrap metal is concerned?

Mr. MILLER. By dealers, very little.

Mr. HALL. Well, who has been doing the hoarding?

Mr. MILLER. I don't know who has. You can—well, of course, to-day—well, who has been hoarding, I will say the farmer has been hoarding.

Mr. BULWINKLE. Who; what; the farmer?

Mr. MILLER. Yes.

Mr. HALL. What about these pictures?

Mr. MILLER. How is that?

Mr. HALL. What about these pictures?

Mr. MILLER. These fellows; yes—I don't try to excuse these people only I should say some—I imagine in most cases these pictures you have here, I take it in most cases, they have been.

The CHAIRMAN. Well, I resent that statement about the farmers hoarding scrap. I don't want it to go out unanswered, because I deeply resent it. I do not think there is any basis for it at all.

Mr. MILLER. Well, let me tell you, we have today, and we know there is approximately a million and a half tons of scrap on farms.

Mr. PLOESER. How do you know that?

Mr. HALL. Let us get a little bit further; how much is in yards today?

Mr. MILLER. What is that?

Mr. HALL. You say there is million and a half tons on farms?

Mr. MILLER. Yes.

Mr. HALL. How many tons are in the various yards, like the pictures we have seen here today?

Mr. MILLER. According to the Bureau of Mines report, we find that inventories in yards have been depleting for over 13 or 14 months.

Mr. HALL. Well, how much would you say?

Mr. MILLER. The last report we got from the Bureau of Mines, 700,000 pounds, but that is a lot of scrap in unprepared form. Before scrap can be shipped from a yard to the mill it must be prepared. Scrap is loaded in cars of weights anywhere from 20 to 50 or 60 tons per car, and, as you have been told by the Office of Price Administration here, there are several grades. You cannot ship more than one grade in a car. You probably have a car of No. 1 steel, a car of No. 2 steel, and so on, so with all these cars you have just heard about, the scrap-iron dealer has to have several hundred tons of scrap in his yard in order to accumulate.

Mr. COHEN. I might say the Bureau of Mines reports, but it is not a complete report; people don't write—is that right?

Mr. MILLER. I would say by far the majority, and we have someone here from the Bureau of Mines now that can probably tell you about this better than I can.

Mr. BULWINKLE. Are you through?

Mr. MILLER. Yes.

Mr. BULWINKLE. Give your name and address to the clerk of the committee, please.

Mr. MILLER. My name is Alex Miller.

Mr. BULWINKLE. Alex?

Mr. MILLER. Miller.

Mr. BULWINKLE. Your address?

Mr. MILLER. Washington address?

Mr. BULWINKLE. No. Your home address first.

Mr. MILLER. 2958 Fontaine Road, Cleveland, Ohio.

Mr. BULWINKLE. What business are you in in Cleveland?

Mr. MILLER. Scrap-iron business.

Mr. BULWINKLE. Are you a member of the Scrap Iron Institute?

Mr. MILLER. That is right.

Mr. BULWINKLE. Do you hold any official position in it?

Mr. MILLER. No.

Mr. BULWINKLE. Have you ever held any?

Mr. MILLER. I happen to be president of one of the chapters.

Mr. BULWINKLE. That includes the city; your home city?

Mr. MILLER. Yes; that is right.

Mr. BULWINKLE. How many dealers are members of this institute?

Mr. MILLER. I do not know, but I imagine somewhere between 700 and 800.

Mr. BULWINKLE. How many dealers are there in the United States?

Mr. MILLER. Well, including peddlers, I would say about 100,000.

Mr. BULWINKLE. Why were you selected to come down here on this?

Mr. MILLER. I was not selected. Oh, you mean to come to Washington?

Mr. BULWINKLE. Yes.

Mr. MILLER. I am sure I cannot answer that. I was asked to come down here. Why I was selected, I do not know.

Mr. BULWINKLE. Are you a nephew of Mr. Borenstein?

Mr. MILLER. No nephew and in no way related.

Mr. BULWINKLE. Not in the least?

Mr. MILLER. Not in the least.

Mr. BULWINKLE. But you are a dealer?

Mr. MILLER. Yes.

Mr. BULWINKLE. You said just now that there has been no hoarding except from the farmers; is that correct?

Mr. MILLER. No; I did not say that at all.

Mr. BULWINKLE. The greater part then was from the farmers?

Mr. MILLER. Beg pardon?

Mr. BULWINKLE. The greater part then was from the farmers?

Mr. MILLER. I do not know. I would call—I would say the farmer wasn't exactly hoarding.

Mr. BULWINKLE. Didn't you say he was?

Mr. MILLER. I would not say hoarding. I say he was holding scrap.

Mr. BULWINKLE. I am asking you this: When Mr. Patman asked you, didn't you say that the farmer was the greater offender in hoarding?

Mr. MILLER. I say that he is holding scrap.

Mr. BULWINKLE. I am asking you not what you say now.

Mr. MILLER. Well, I meant holding.

Mr. BULWINKLE. Well, you did say hoarding.

Mr. MILLER. Yes; but I meant holding.

Mr. BULWINKLE. So you did not mean it at all?

Mr. MILLER. That is right. I meant holding.

Mr. BULWINKLE. All right. We got that straight.

Mr. MILLER. All right.

Mr. BULWINKLE. Now, who are the greatest offenders in hoarding, then?

Mr. MILLER. A few scrap iron dealers, but very few.

Mr. BULWINKLE. Do they belong to the institute?

Mr. MILLER. I do not know.

Mr. BULWINKLE. Have you ever looked to see?

Mr. MILLER. No.

Mr. BULWINKLE. Where are they located?

Mr. MILLER. These few?

Mr. BULWINKLE. Yes.

Mr. MILLER. Mostly, if I recall, in the East here.

Mr. BULWINKLE. Give me their names.

Mr. MILLER. I do not remember offhand.

Mr. BULWINKLE. How many of them are there?

Mr. MILLER. I do not know offhand.

Mr. BULWINKLE. Well, now, you made the statement that some of the dealers in the East were hoarding.

The CHAIRMAN. Can't you name one?

Mr. MILLER. Yes. For example, this one, although I imagine it is the furthest I have seen, is Silver in Portland, Maine.

Mr. BULWINKLE. Was Silver—so Silver is the only one that you know of?

Mr. MILLER. No.

Mr. BULWINKLE. Well, who are the others?

Mr. MILLER. Well, all these pictures that—

Mr. BULWINKLE. I am not talking about the pictures. I am talking about what you have in your offices.

Mr. MILLER. Well, we have been reported on Silver, Casden, Goldberg.

Mr. BULWINKLE. Now, as you say, as you go along let us get the address where these men are.

Mr. MILLER. Silver, Portland, Maine. Their scrap was allocated.

Mr. BULWINKLE. All right. Now, go ahead. You have got two or three, have you?

Mr. MILLER. Silver, Portland, Maine. Casden, I forget his address.

Mr. PLOESER. What State?

Mr. MILLER. It is in the State somewhere, I don't recall.

Mr. FRANCE. I think it is New London, Conn., somewhere, New London or New Haven.

Mr. BULWINKLE. All right, sir. Who else?

Mr. MILLER. Goldberg.

Mr. BULWINKLE. Where is he?

Mr. MILLER. Columbus, Ohio. I am going according to these pictures here.

Mr. BULWINKLE. Well, now, all your recollection is from these pictures?

Mr. MILLER. No; not exactly.

Mr. BULWINKLE. I am trying to get away from those pictures. I am wanting to know what you know.

Mr. MILLER. There is one fellow I know is not on these pictures from Beckley, W. Va., and the name of the firm is Burman, if I recall correctly, but I know scrap from Beckley, W. Va., was allocated. In other words, whenever we found that there was any amount of scrap at all that could move to a mill, that needed scrap for defense needs, we immediately allocated that scrap either to that mill, or to that—

Mr. BULWINKLE (interposing). Well, then, after the pictures were presented to you—now, we are coming to that.

Mr. MILLER. Let me also add this, this was reported to us, that certain people were hoarding scrap. Well, you know, we cannot just go on hearsay. We have got to investigate. It very often happens, after we investigate it, they were hoarding it up to that, and in the meantime sold the scrap to someone. If they hoarded the scrap and sold it to somebody and it was going to a mill, all right, they sold the scrap. There is no need to change it.

Mr. BULWINKLE. All right; I understand that.

Now, did you make an investigation after these pictures were given you by Mr. France?

Mr. MILLER. The pictures were not given to me. I only saw them in his office.

Mr. BULWINKLE. Did you make any notes of it?

Mr. MILLER. That is right.

Mr. BULWINKLE. Did you make notes of every one of them?

Mr. MILLER. That is right.

Mr. BULWINKLE. Did you investigate those?

Mr. MILLER. Yes, sir.

Mr. BULWINKLE. What is the report on all of those?

Mr. MILLER. Either that their scrap was allocated or that their scrap was sold to someone and is moving.

Mr. BULWINKLE. In every case?

Mr. MILLER. In every case.

Mr. BULWINKLE. Except just those that you have named?

Mr. MILLER. There had been just—no, no; no exception at all; either allocated the scrap or the scrap was sold by this so-called hoarder, and that scrap moved in every case.

Mr. BULWINKLE. That is what I am trying to get at. How many of those pictures did you take action against?

Mr. MILLER. Every one.

Mr. BULWINKLE. Every one?

Mr. MILLER. Yes.

Mr. BULWINKLE. And you made every one allocate it?

Mr. MILLER. Either allocated it or their scrap was sold.

Mr. BULWINKLE. All right.

Mr. MILLER. Yes, sir.

Mr. BULWINKLE. But the scrap was sold before you took action, wasn't it?

Mr. MILLER. Not in every case; no.

Mr. BULWINKLE. Did you give them a chance to sell it before you allocated it?

Mr. MILLER. No.

Mr. BULWINKLE. Well, I cannot understand that, Mr. Miller, because you either allocated or took action by allocating, or they did not have it; they had already sold it, hadn't they?

Mr. MILLER. In several cases when we investigated we found that the scrap was already sold.

Mr. BULWINKLE. Now, how about the Casden Iron & Metal Co. of Cleveland, Ohio?

Mr. MILLER. Yes.

Mr. BULWINKLE. Were they hoarding?

Mr. MILLER. We allocated their scrap but not because they were hoarding.

Mr. BULWINKLE. Why did you allocate it then?

Mr. MILLER. We allocated their scrap because we had a request from the Republic Steel Corporation of Cleveland, Ohio, that they were short of scrap at Youngstown and Warren, and would have to take furnaces off, so we know that he is a substantial shipper, from records, and my own personal knowledge, so I allocated his scrap to be shipped to Republic Steel Corporation, to keep those furnaces going.

Mr. BULWINKLE. Were there any other corporations or firms or partnerships or individuals that you did the same thing, knowing they had plenty of iron and scrap?

Mr. MILLER. Oh, yes.

Mr. BULWINKLE. And had them to ship it?

Mr. MILLER. Oh, yes. In other words, we allocated enough scrap to keep the mill in the valley district going.

Mr. BULWINKLE. Well, you have not kept them going at Youngstown, from what Mr. Kerwin says, have you?

Mr. MILLER. We have allocated enough scrap for them to keep going—enough tonnage.

Mr. BULWINKLE. Well, were you in here this morning?

Mr. MILLER. Yes, I have heard it; sure, I heard it.

Mr. BULWINKLE. Well, was that correct?

Mr. MILLER. It is true that the furnaces are down, some of the furnaces are down but—

Mr. BULWINKLE (interposing). How many?

Mr. MILLER. Beg pardon?

Mr. BULWINKLE. How many are down?

Mr. MILLER. The last I heard, that there were 12 furnaces down, in the valley. Now, they cannot all be down for lack of scrap, because we all know—

Mr. BULWINKLE (interposing). Well, what other reason could they be down for?

Mr. MILLER. Well, we know repairs must be made to furnaces, and all we can do is allocate the scrap; and don't you think that the steel mills to whom we allocated scrap should exercise some effort on their own part to get some of the scrap moving into their mills? Now, we have cases where we have allocated scrap to mills.

Mr. BULWINKLE. That is what we are trying to find out, by this committee, right now. What is the trouble?

Mr. MILLER. We have allocated scrap to other mills, and they immediately send a gang of men out on the highway to contact these dealers in plants to see to it that the scrap is moving in, and they have put their furnaces back on again.

Mr. BULWINKLE. Well, have you investigated the condition of these furnaces being closed in the Youngstown area?

Mr. MILLER. We know that several furnaces—

Mr. BULWINKLE (interposing). Well have you investigated that?

Mr. MILLER. Investigated what?

Mr. BULWINKLE. To find out the trouble, why they are closed?

Mr. MILLER. They are closed because they do not have scrap.

Mr. BULWINKLE. That is what I am coming to.

Mr. MILLER. That is right.

Mr. BULWINKLE. All right. Then, notwithstanding that the civilian population of the United States, as well as the Army and Navy and the national defense need scrap, yet you have not done one thing to put these 12 furnaces to work, have you?

Mr. MILLER. Yes; we have.

Mr. BULWINKLE. Well, then, I ask what have you done?

Mr. MILLER. We have allocated scrap to them.

Mr. BULWINKLE. Well, why aren't they running if you have allocated scrap to them?

Mr. MILLER. As I said a moment ago, that if these steel mills would do what some of the other mills did, expedite scrap into their plants, they would be running.

Mr. BULWINKLE. You just now said to me that you had not made any investigation at all as to why they were not running. Now, then, what do you mean?

Mr. MILLER. I did not tell you anything like that.

Mr. BULWINKLE. Yes; you did.

Mr. MILLER. I said they are not running because they did not have scrap. They are going to keep the furnaces down until they have some.

Mr. BULWINKLE. You say they are not running because they did not have scrap?

Mr. MILLER. That is right.

Mr. BULWINKLE. That they had gotten that?

Mr. MILLER. That is right.

Mr. BULWINKLE. Then you immediately said afterward that you allocated scrap to them?

Mr. MILLER. That is right.

Mr. BULWINKLE. Give me the list of names of these furnaces you have allocated scrap to.

Mr. HALL. That are not running.

Mr. BULWINKLE. And that are not running.

Mr. MILLER. The Republic Steel Corporation at Youngstown and Warren, Ohio.

Mr. BULWINKLE. Are there 12 furnaces?

Mr. MILLER. I do not know how many today.

Mr. BULWINKLE. When did you issue an allocation order for scrap to those furnaces?

Mr. MILLER. We started to allocate scrap to them on the 29th of October.

Mr. BULWINKLE. Have you since that time—have you the notices of the orders allocating that scrap to them?

Mr. MILLER. Not with me; no; I do not have it.

Mr. BULWINKLE. Can you get them for me?

Mr. MILLER. Yes.

Mr. BULWINKLE. You will have them here, then, by this afternoon?

Mr. MILLER. Yes.

Mr. BULWINKLE. All of the allocations?

Mr. MILLER. For those.

Mr. BULWINKLE. For those 12 furnaces?

Mr. MILLER. I do not know how many there are. I don't know; I just happened to pick 12 at random.

Mr. BULWINKLE. Well, then, you will have that here this afternoon for us?

Mr. MILLER. Yes, sir.

Mr. BULWINKLE. Then, you say that the steel companies did not help themselves because they did not send the men out to steer or do whatever was necessary with this scrap in order to bring it to them; is that correct?

Mr. MILLER. That is right.

Mr. BULWINKLE. In every instance of the 12 furnaces they did that—they failed to do that?

Mr. MILLER. To my knowledge, they haven't sent anyone out on the highways to—

Mr. BULWINKLE. On the highways?

Mr. MILLER. What I mean by it is this: They did not send to the plants of the producers of this scrap to see to it that they were getting the scrap.

Mr. BULWINKLE. Then they did not send in to the scrap dealers at all?

Mr. MILLER. Beg pardon?

Mr. BULWINKLE. I thought they were getting the scrap from the scrap dealers?

Mr. MILLER. That is right.

Mr. BULWINKLE. And they did not send—you say they did not send men to the scrap yards or scrap dealers to get this?

Mr. MILLER. You know, in business, in all types of industry, I know this—I know this, that in all types of industry, every corporation of any size, have what they call expeditors, and when they are not getting materials fast enough, they immediately send men to the source of supply to find out why they are not getting them.

Mr. BULWINKLE. Oh, yes; but here your agency has the power to see that this got through to them—didn't it—in this emergency?

Mr. MILLER. It is up to us to allocate the scrap.

Mr. BULWINKLE. That is all you do.

Mr. MILLER. Beg pardon?

Mr. BULWINKLE. And if anybody refuses to take it, since the 29th of October, then you just leave that allocation in the junk yard without ever going any further?

Mr. MILLER. No. When we are informed that anyone is not shipping on his allocation, we immediately report him to the Office of Compliance.

Mr. BULWINKLE. All right. Now, then, have you any notice that any junk dealer, upon his allocation—or scrap dealer, I should say—scrap dealer, anywhere, upon allocation to these furnaces, in and around Youngstown, that they failed to ship?

Mr. MILLER. Yes; and we reported on all cases reported to us—we reported those cases to the Compliance Division of the office.

Mr. BULWINKLE. Have you got a copy of those reports?

Mr. MILLER. A copy of what?

Mr. BULWINKLE. Of those reports to the Compliance Division that you have just now spoken of?

Mr. MILLER. Do you mean that we reported these cases, too?

Mr. BULWINKLE. Yes.

Mr. MILLER. No. I—in all cases, I either went to the Compliance Department and gave them my message verbally or they came to our department.

Mr. BULWINKLE. When did you go to the Compliance on this?

Mr. MILLER. I do not remember the days, but there are men here from the Compliance Department who have a record of all this.

Mr. BULWINKLE. There are men in here, in the room here?

Mr. MILLER. Yes.

Mr. BULWINKLE. That have a record of the time you called?

Mr. MILLER. I imagine so.

Mr. BULWINKLE. You imagine so?

Mr. MILLER. I imagine; I do not know if they have their records with them.

Mr. BULWINKLE. Is there anyone here? I want them to stand up so we will know how to call them.

The CHAIRMAN. Well, we know who has charge of the Compliance Section—Mr. Ward.

Mr. WARD. I am present, sir. I do not have the date on which cases were referred. I can very easily get it, but I do not have it with me.

The CHAIRMAN. All right. He can get it from the Division.

Mr. HALL. May I ask one question. I think it brings out the whole point.

In your opinion, then, if there are any furnaces closed down in Youngstown, Ohio, the fault lies with the steel mill and not with the scrap dealer?

Mr. MILLER. No; I do not mean to say that at all. I say the fault lies partially with the steel mill and partially with the scrap-iron dealer.

Mr. FITZGERALD. Mr. Miller, you did not identify yourself, or if you did it got by me.

Are you connected with the Office of Production?

Mr. MILLER. Management.

Mr. FITZGERALD. Office of Production Management?

Mr. MILLER. Yes.

Mr. FITZGERALD. You said you were in the junk business.

Mr. MILLER. That is right.

Mr. FITZGERALD. Are you still engaged in the junk business?

Mr. MILLER. My company is still operating; that is right.

Mr. FITZGERALD. While you are in Washington?

Mr. MILLER. Yes, sir.

Mr. FITZGERALD. That is all.

The CHAIRMAN. Gentlemen, would it be all right to meet at 2:30?

Mr. PLOESER. Mr. Chairman, I would like to get one question in the record. You named Burman or Burman & Son. Is that the name?

Mr. MILLER. Beckley, W. Va.?

Mr. PLOESER. Beckley, W. Va.

Mr. MILLER. Yes.

Mr. PLOESER. As one of the hoarders of scrap that you had to allocate?

Mr. MILLER. That is right.

Mr. PLOESER. They are a member of the Scrap Iron Institute. Any of these others?

Mr. MILLER. I recall that that firm was reported by the Scrap Iron Institute.

Mr. PLOESER. It was reported?

Mr. MILLER. That is right.

Mr. PLOESER. Isn't that rather a risky way, to depend upon the industry to report their own violations?

Mr. MILLER. Not at all.

Mr. PLOESER. You don't think it is?

Mr. MILLER. No; because I think they mean business.

Mr. PLOESER. Tell me this, have you made any survey of the amount of available scrap in the country?

Mr. MILLER. The only survey that we have on available scrap in the country is this: Reports that we received from the Bureau of Mines, because we have been getting monthly reports right along. They report to us and that is our survey.

Mr. PLOESER. The Office of Production Management made no attempt to make a survey?

Mr. MILLER. The Office of Production Management has delegated the Bureau of Mines to make a survey for them.

Mr. PLOESER. We understood a moment ago from one gentleman from the Office of Price Administration, that these figures were turned over to your department right after the last date—the last date on any of them is November 30, and you said you received them, I thought I understood you to say, December 24?

Mr. MILLER. The time that I saw them was the afternoon before the Christmas holiday, I saw them in Mr.—

Mr. FRANCE. I can answer that question, if you are trying to build up disparity here.

Mr. PLOESER. I am not trying to build up anything. I am trying to find out facts.

Mr. FRANCE. I can explain it; that is this—I do not recall the date I received them, but I am in constant touch with Mr. Miller, and immediately, as I find cases of hoarding, and they allege hoarding—and there are—this *Silver case*, for example, I can take out the record and find that they were referred to the Allocation Division of the O. P. M. before the pictures were received, and, as a matter of fact, many of these people we are talking about in here have been—

The CHAIRMAN. Speak up, please.

Mr. FRANCE. For the record I want to make it clear that as soon as any information is received by myself as to allocations of hoarding, that they are promptly turned over to Mr. Miller, and I will say this for Mr. Miller—that after he turns the report over to me he will always check with me to find out whether anything is done. I think invariably he will find that man's scrap was always allocated.

I will say this: He was always on the job.

Mr. PLOESER. Are you always on the job over in O. P. M. equally as prompt?

Mr. MILLER. I will let Mr. France answer.

Mr. FITZGERALD. Mr. Miller, are you on the pay roll of your company at the present time?

Mr. MILLER. Our company is a partnership.

Mr. FITZGERALD. You are a part of that partnership?

Mr. MILLER. Yes; and receiving no salary?

Mr. FITZGERALD. Receiving no part of the profits?

Mr. MILLER. What is that?

Mr. FITZGERALD. Are you receiving any part of the profits?

Mr. MILLER. I imagine I will be receiving part of the profits; yes; but I will be receiving no salary.

Mr. FITZGERALD. Well, isn't profit salary?

Mr. MILLER. I should not think so.

Mr. FITZGERALD. But you are working down here in Washington on one of these dollar-a-year jobs?

Mr. MILLER. That is right. Let me also add here that I did not ask to come down here. I was asked to come down.

Mr. FITZGERALD. Well, that is all right. I understand.

The CHAIRMAN. There are thousands of scrap yards, are there not, Mr. Miller, over the country, thousands of scrap yards?

Mr. MILLER. Yes.

The CHAIRMAN. In those scrap yards there is a certain amount of scrap now, is there not?

Mr. MILLER. Yes.

The CHAIRMAN. How much would you estimate it in tons is in those scrap yards today, just an estimate.

Mr. MILLER. On the average?

The CHAIRMAN. No; not on the average. I am talking about the gross estimate.

Mr. MILLER. Gross estimate, I would say possibly less than 700,000 tons.

The CHAIRMAN. Less than 700,000 tons?

Mr. MILLER. On that, most of that would be unprepared scrap.

The CHAIRMAN. In the entire Nation?

Mr. MILLER. Yes.

The CHAIRMAN. 700,000 tons.

Mr. MILLER. But you see, there is scrap coming into the yard every day, they are shipped.

The CHAIRMAN. I understand.

Now, gentlemen of the committee, just a moment.

Major, would you mind coming around just a moment and let us decide. I am personally not particularly anxious to have a meeting this afternoon. Mr. Halleck cannot be here either. Would it be all right to put this meeting off and have the same witnesses—now, here are some witnesses, that we would like to hear. We have Mr. Ward here, and then we have Mr. Louis J. Borinstein, the Chief of the Scrap Metal Division of O. P. M. We would like to hear those gentlemen.

Mr. BULWINKLE. Let us have them back tomorrow morning.

The CHAIRMAN. No; tomorrow morning we have agreed to hear the Members of the House who desire to make a statement before this committee.

Mr. BULWINKLE. Make it Saturday morning.

The CHAIRMAN. Mr. Miller, could you be here Saturday morning?

Mr. HALL. I won't be here.

The CHAIRMAN. How about Monday morning?

Mr. HALL. Monday morning is all right.

The CHAIRMAN. Mr. Borinstein, would it be all right for you?

Mr. BORINSTEIN. I would very much prefer to have it this afternoon, if possible, because I have been ill, and I plan to go home tomorrow, but if that is the best this committee can do—

The CHAIRMAN. You could probably be back Monday?

Mr. BULWINKLE. Make it Tuesday, Mr. Borinstein. Let us make it Tuesday morning.

Mr. BORINSTEIN. Don't do anything to accommodate me. I will accommodate this committee, because this committee wants to do a good job, and I will fit into your plans. I will fit into your program.

The CHAIRMAN. We will make it then Tuesday morning, to make sure. Mr. Borinstein and Mr. Ward, we are going to ask you to be back, and Mr. Miller, and Doctor, I think one or two of these gentlemen had better be back here to deal specifically on scrap. It is not necessary for you yourself to be back unless you want to.

Mr. GALBRAITH. I will arrange to have Mr. France and Mr. Cohen back.

The CHAIRMAN. That will be perfectly all right. Tuesday morning. Let us have attention. Those allocations, 450 of them, I wish you would get the committee a list of those allocations for Tuesday.

Mr. MILLER. Do you mean for Tuesday?

The CHAIRMAN. Yes; for Tuesday.

Mr. MILLER. Whom the scrap was allocated to and from whom; that is right.

The CHAIRMAN. Just a moment. And on those pictures, Mr. Reporter, I wish you would take each one of those pictures and identify it, just a brief identification for the record.

Without objection, a statement from the National Association of Manufacturers will be inserted in the record,

(The statement referred to is as follows:)

STATEMENT OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

The following statements, representing the interest of the National Association of Manufacturers in the problems affecting small business establishments, are from the platform and resolutions adopted by the association at its annual meeting in New York City in December of 1941.

The platform and the resolutions were adopted on December 5, just 2 days before Pearl Harbor.

In the platform of the National Association of Manufacturers, adopted at this meeting, it is stated:

"The defense agency must plan defense production in such a way that it will cause as little hardship as possible to the civilian population and to those small producers not directly concerned with the defense program. Many of our smaller companies are now being forced out of business because they cannot get materials. Much of this is unnecessary. They could be saved by a more careful distribution of available supplies. These small companies are vital to our future. The jobs of millions of our people, not only at present but in the post-war period as well, depend upon their survival. Their destruction would wreck our whole economic system. Everything possible must be done to save them. The creation and development of a great industry may depend upon the preservation today of some little shop in which a man with an idea is beginning to produce a new product."

The resolution adopted at this meeting pertaining to the role of civilian industry in the defense-production effort follows:

CIVILIAN INDUSTRY

"The Nation's attention is centered on the production of war materials. Yet all must realize that production for civilian use is a vital and inseparable part of the defense program. Unless civilian production is maintained at the highest level possible consistent with the emergency, our economic strength will be undermined, the country's morale will suffer, and the defense effort itself may be dangerously handicapped.

"Civilian industry must realize that today it faces a real crisis—a drastic curtailment in production and employment. The defense program seriously threatens the existence of thousands of businesses engaged in the production and distribution of civilian goods. This would cause widespread unemployment. Labor will be the chief sufferer. This is a situation of grave importance because civilian industry includes most of that important group frequently referred to as the little businessman.

"If civilian industry, or any large part of it, is forced to die in the defense period, then the entire system of competitive civilian enterprise will have difficulty in existing when peace comes—without such economic liberty our other freedoms, political and religious, will be menaced as never before.

"To meet this situation we recommend—

"1. That Congress declare by joint resolution that the soundest plan for a total defense economy requires equal consideration of the requirements for

civilian industry, so that for the benefit of the general economy its employment and its production can be maintained at the highest level commensurate with the requirements of national defense; and

"2. That civilian-industry producers make every possible effort to help themselves—such as, developing products which they could make without the use of critical materials, simplifying designs, items, and varieties to get the maximum output possible. Each producer should now review his production, to see how far use of critical materials could be curtailed without creating unemployment.

"3. Government orders, regulations, and controls should limit the use of critical materials only and place no limit on volume of output, since this could be changed in individual cases by utilization of materials and by use of substitutes—ingenuity should be encouraged; not penalized. The problem of the small manufacturer is more one of material supplies than finance.

"4. When the Government finds it necessary to allocate critical materials to civilian producers the plan of allocation should be developed jointly between the allocations authority and industry advisory groups.

"5. Any system of allocations should provide for a board of review to decide 'hardship' cases, and such board should include representatives of industry.

"6. In the allocation of critical materials the Government should give full weight to the needs of 'little business.'

"The above recommendations are presented because—

"(a) the more civilian industry can produce the greater the hedge against general inflation, which is today a serious danger.

"(b) a fully employed civilian industry would be the strongest influence possible for maintaining a high morale in our larger industrial population and those dependent on it, and, finally,

"(c) in the change-over from a war economy to a peace economy it will be of the utmost value to the welfare of the entire country to have a strong, going industrial organization, ready to take over the problems and responsibilities resulting from this change."

The CHAIRMAN. Without objection the committee will stand in recess until 10 o'clock tomorrow, at which time we will hear the Members of the House who desire to be heard regarding small business.

(The pictures referred to were marked, respectively, as exhibits Nos. 1 to 42, inclusive, and marked with the date January 22, 1942, H. R. 294.)

(Whereupon, at 12:30 p. m., a recess was taken until Friday, January 23, 1942, at 10 a. m.)

SMALL BUSINESS IN THE UNITED STATES

FRIDAY, JANUARY 23, 1942

SELECT COMMITTEE TO CONDUCT A STUDY AND
INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM IN ITS
RELATION TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.

The select committee met, pursuant to adjournment, in the caucus room, Old House of Representatives Office Building, at 10 a. m., Hon. Wright Patman, of Texas (chairman), presiding.

Present: Representatives Patman (Texas), chairman, Bulwinkle (North Carolina), Kelly (Illinois), Fitzgerald (Connecticut), Halleck (Indiana), Hall (New York), and Ploeser (Missouri).

Mr. Ira Bird Kirkland, Jr., counsel for the committee.

The CHAIRMAN. The committee will come to order.

We will recognize any member for 1 minute. If he wants more than that he will have to wait until later. He will have the privilege of extending his remarks.

If you would rather wait until later, it will be perfectly all right.

I will ask that you give your names to the reporter before you speak.

Mr. IZAC. Congressman Ed. V. Izac, Twentieth District, California.

I would like to present some recommendations from the automobile dealers of my district, together with the suggestions that they have to relieve the situation with which they are faced.

The CHAIRMAN. The committee will give sympathetic consideration to them. They will be entered in the record and we thank you very much.

(The recommendations referred to are as follows:)

SAN DIEGO, CALIF., *January 13, 1942.*

U. S. CONGRESSMAN ED. V. IZAC,

House of Representatives, Washington, D. C.

Will appreciate your attending House of Representatives committee meeting tomorrow morning protesting present freezing of new cars as well as further freezing of used car stocks which will result very disastrously for us.

DON LEE M. K. BROWN, *Manager.*

SAN DIEGO, CALIF., *January 12, 1942.*

United States Congressman ED. V. IZAC,

House of Representatives, Washington, D. C.:

Please attend committee meeting tomorrow and protest any further freezing of automobile dealers' merchandise. We must sell used cars until we can adjust our plants for service work. Your help urgently needed.

CITY CHEVROLET CO. AND 85 EMPLOYEES.

SAN DIEGO, CALIF., *January 12, 1942.*

Hon. ED. V. IZAC,

House of Representatives, Washington, D. C.:

Earnestly request your attendance House of Representatives committee meeting Tuesday and protest against the freezing of used cars. If used cars are frozen this will be the end of the automobile industry and will force liquidation and bankruptcy of dealers throughout the country. Your earnest attention and support in our behalf is urgently requested.

FRED V. BROWN,
Brown Motor Co.

SAN DIEGO, CALIF., *January 12, 1942.*

ED. V. IZAC,

House of Representatives, Washington, D. C.

HONORABLE SIR: Urge you to attend House of Representatives committee meeting Tuesday morning and protest present freezing orders on used car stocks.

REG STALMER.

Congressman ED. V. IZAC,
Washington, D. C.:

SAN DIEGO, CALIF., *January 9, 1942.*

Strongly urge reconsideration of the apportionment of tires to industry and particularly to the dairy industry. It will seriously disrupt more than 200,000 men and their families. Recent survey made in San Diego, Calif., revealed that 70 percent of all delivery was relative to national-defense program. Ordinary peacetime services should be maintained at all cost as long as possible in order to sustain the health and efficiency at the highest possible peak among the people in military areas such as this.

LARRY M. SMITH,
Secretary, Sales Drivers, Helpers and Duty Employees Union No. 683.

SAN DIEGO, CALIF.,
January 11, 1942.

ED. V. IZAC,

House of Representatives, Washington, D. C.

HONORABLE SIR: The undersigned, being engaged in the business of retailing, servicing, and distributing both new and used motor cars, including light, medium, and heavy trucks, in open meeting as of this date urgently request that you be in attendance at the hearing of the House of Representatives committee Tuesday, January 13, 1942, and protest the present freezing orders of passenger automobiles. Such hearing will largely determine the salvation or destruction of the business establishments of the signatories attached hereto, as well as every dealer in every city and hamlet in the United States. Unless you act, bankruptcy will be forced upon us should the hearing result in further order freezing used-car stocks. Not only will it be the final curtain call for the automotive industry but several other industries closely allied. We ask that the seriousness of the pending disaster have your undivided attention.

Brown Motor Co.; Campbell Chevrolet Co.; City Chevrolet Co.; College Motor Co.; O. B. Davey Co.; Davies Motors, Inc.; Dan Lee, Inc.; El Cortez Pontiac Co.; C. A. Gray Co.; Guarantee Chevrolet Co.; Mark Hanna; Jordan Motor Sales; Robt. D. Maxwell Co.; Pearson Motor Co.; Ed. Schank Motors, Inc.; Smith & Haight, Reg. Stalmer; J. R. Rownsend, Inc.; Tufford Motors; University Motors.

SAN DIEGO, CALIF.,
January 10, 1942.

ED. IZAC,

House of Representatives, Washington, D. C.

HONORABLE SIR: Urge you attend meeting in House of Representatives next Tuesday a. m. and protest present freezing orders we understand may spread

into used cars. Have had Dodge dealership for 28 years, employ 75 people, and if freezing spreads will have to close out old established business and let all employees go.

C. A. GRAY,
San Diego Dodge Distributor,
San Diego County.

EL CENTRO, CALIF.
January 11, 1942.

HON. ED. V. IZAC,
Congressman, Washington, D. C.:

We are informed it is expected next week to have all used cars frozen. Urgently request you attend meeting House of Representatives next Tuesday, January 13, and insist that Federal Government does not freeze used cars.

LESLIE F. ROGERS,
Dodge-Plymouth Distributors for Imperial County.

SAN DIEGO, CALIF.,
January 11, 1942.

ED. V. IZAC,
House of Representatives, Washington, D. C.:

Urge you attend Tuesday meeting and use every effort to stop freeze on new or used cars. Freeze will cause bankruptcy for these dealer bodies. Then where is the general public to obtain service on the cars now operating?

O. B. DAVEY CO.,
Hudson Distributor, San Diego.

EL CENTRO, CALIF.,
January 10, 1942.

HON. ED. V. IZAC,
Member of Congress, Washington, D. C.:

Urge you to attend House committee meeting Tuesday and protest reported proposal to freeze used as well as new cars. Dealers must have some consideration if they are to escape bankruptcy. Should be possible to give dealers and their employees some protection without retarding Government defense work.

EDGAR BROS. CO.

SAN DIEGO, CALIF.,
January 10, 1942.

The Honorable Ed. Izac,
House of Representatives, Washington, D. C.:

Urgent you attend House of Representatives committee meeting next Tuesday morning regarding present freezing order on cars, trucks, and pending order on used cars. Doubtless you know position we are placed under unless we obtain release. Disaster will be ours.

GUARANTY CHEVROLET CO.
L. H. KORNIK.

SAN DIEGO, CALIF.,
January 11, 1942.

ED. V. IZAC,
House of Representatives, Washington, D. C.:

Urge your attendance House committee meeting Tuesday morning. Imperative immediate action to protect automobile dealers from freezing orders on new cars and any freezing of used-car stocks. Such action, unless immediate financial assistance opened for dealers, means disaster for 44,000 dealers and their employees.

ED. SCHANK MOTORS, INC.

SAN DIEGO, CALIF.,
January 10, 1942.

Hon. Ed. V. Izac,
House of Representatives, Washington, D. C.:

We wish to urge that you attend the House of Representatives committee Tuesday morning and protest present freezing orders on new and used cars. The result of freezing used-car stocks as contemplated will put us out of business as it surely will most other dealers in the Nation. Along with us will go the service facilities so essential to the defense of our country.

COLLEGE MOTOR CO.

SAN DIEGO, CALIF.,
January 10, 1942.

Representative Ed. V. Izac,
House of Representatives, Washington, D. C.:

Imperative that you attend House of Representative committee meeting Tuesday morning on behalf of the many thousands of automobile dealers and their employees. Freezing of used cars would be the last straw making bankruptcy inevitable.

DAVIES MOTORS, INC.
and 51 employees.

EL CENTRO, CALIF., January 11, 1942.

Ed V. Izac,
Member of Congress, Washington, D. C.:

Urge you attend meeting which contemplates freezing used cars. Our business hurt bad enough freezing new cars but understand circumstances and believe this ultimately will be rectified but to freeze our large-used car stock, which is the only thing that is sustaining, would mean bankruptcy for all dealers. We see no object in this move and while we are patriotic for our Government to absolutely ruin us is wrong for we are as entitled to live as anyone. I have been obliged to lay off seven men already. To be deprived of liquidating our used car stock would mean closing up entirely. We need someone like you to head this off so for God's sake do something and tell them what a disastrous and unfair thing. This is spelling ruin to all dealers. Your friend Goree really needs your help.

IMPERIAL VALLEY MOTORS, PACKARD-PONTIAC,
L. J. GOREE, JR.

SAN DIEGO, CALIF., January 5, 1942.

CONGRESSMAN ED IZAC,
House of Representatives, Washington, D. C.:

We respectfully request that dealers be allowed to sell new cars on hand and any new cars to be assigned us by the factory at a fair retail price with no discount we will need all the help we can get to stay in business.

JORDAN MOTOR SALES CO.

SAN DIEGO, CALIF., January 5, 1942.

CONGRESSMAN ED V. IZAC,
House of Representatives, Washington, D. C.:

On behalf 45 employees this organization we urge your cooperation holding ceiling of present price on new and used cars and insisting that any units purchased or requisitioned by Government agencies be at above prices with no discounts also distribution of few remaining new cars be through dealerships.

EL CORTES PONTIAC CO.,
A. M. SANDERS.

SAN DIEGO, CALIF.
January 6, 1942.

United States Congressman Ed. V. IZAC,
House of Representatives, Washington, D. C.:

Being 1 of 44,000 dealers whose new and used car sales volume will be materially affected by the rationing of same, together with reduced income from the service department due to lessened use of vehicles we earnestly urge the opportunity of marketing new and used cars at very fair retail prices with no discounts.

DON LEE M. K. BROWN, *Manager.*

SAN DIEGO, CALIF.
January 6, 1942.

United States Congressman Ed. V. IZAC,
House of Representatives:

In view of recent freezing orders new automobile sales would appreciate your full consideration and help toward keeping 44,000 new car dealers in business. As one of the many dealers we feel that we should be allowed to handle all new car transactions on a full profit basis with no discounts to anyone. Also feel that we should have a free hand in all used car transactions. Thanking you in advance.

MARK HANNAH, *Chrysler Distributor.*

SAN DIEGO, CALIF.
January 6, 1942.

United States Congressman Ed. V. IZAC,
House of Representatives, Washington, D. C.:

We urge relief for dealers and employees by establishing highest possible ceiling on new cars, present retail prices without discount to Government or individuals. Also very liberal used car ceilings, if any should be established. Curtailment of rubber and gasoline will greatly reduce service profits, making the above advisable.

SMITH & HAIGHT.

SAN DIEGO, CALIF.
January 7, 1942.

United States Congressman Ed. V. IZAC,
House of Representatives, Washington, D. C.:

We appreciate that present conditions demand stringent rulings covering sale of new automobiles, however, the 44,000 new car dealers storing paying interest and carrying charges on same and facing the loss of our remaining sources of revenue are entitled to a fair deal and as one of these dealers I ask that you do everything possible to protect us.

CAMPBELL CHEVROLET Co.

SAN DIEGO, CALIF.
January 3, 1942.

Congressman Ed. V. IZAC,
House of Representatives, Washington, D. C.:

HONORABLE SIR: We appreciate that present conditions demand stringent rulings regarding selling new and used cars, however, as one of 44,000 automobile dealers we feel that dealers should be allowed to market all new automobiles and at fair retail prices with no discounts. In face of reduced service work our only salvation is in being able to market all new cars at fair prices.

ROBERT D. MAXWELL
ROBERT D. MAXWELL Co.

SAN DIEGO, CALIF., January 6, 1942.

United States Congressman Ed. V. IZAC,
House of Representatives, Washington, D. C.:

Forty-four thousand dealers and one-half million employees should be considered in the freeze on cars and trucks as well as the employees at the factory.

Prolong sales completion will greatly increase our expense. Scarcity of rubber will reduce income from service. Above facts justify new car ceiling, if any, at higher prices than present retail. A very liberal used-car ceiling, if any, important and fair. Any units purchased by the United States Government, State, or city be at retail price with no discounts. Sales should be made through dealers. Consideration needed now.

O. B. DAVEY Co.

SAN DIEGO, CALIF., *January 6, 1942.*

United States Congressman Ed. V. Izac,
House of Representatives, Washington, D. C.:

If price ceilings are placed on new and used cars, imperative that we have margin enough to weather this emergency. Also full gross on units and tires purchased or requisitioned by Government. We are tied up with numerous leases and heavy pay roll and the dismissal of employees only increases problems of Government and dealer. In any event please be assured of our full cooperation.

WM. A. MORGAN,
Owner City Chevrolet Co.

SAN DIEGO, CALIF., *January 5, 1942.*

United States Congressman Ed. V. Izac,
House of Representatives, Washington, D. C.:

Although in sympathy with Government auto needs, suggest Government take number of cars needed now, thereby releasing balance for disposal. Rents, bank notes, etc., must be met. Priority would make liquidation too slow, causing disaster to finance companies and banks. Failure and bankruptcy among auto dealers. We have never been favored by county, city, or Federal car orders in past. There are thousands of other independent dealers like us.

DAVIES MOTORS, INC.,
Nash and Willys Dealers.

SAN DIEGO, CALIF., *January 6, 1942.*

United States Congressman Ed. V. Izac,
House of Representatives, Washington, D. C.

HONORABLE SIR: Discontinuance of automobile manufacturing justified because of rubber situation. However, freezing new-car stocks will prolong sales completion, greatly increasing dealer expenses, which majority of dealers in Nation will be unable to meet with no provisions for moratorium on leases, interest, bank loans, etc. Some definite relief must be incorporated in freeze order. Further, it is important and only fair that any units purchased or requisitioned by Governmental agencies be bought at retail prices at no discount. In event it should become absolutely necessary to establish a price ceiling only a very reasonable one should be considered. Service departments, because of lessened use of vehicle, will be unable in any instance to bridge the gap. If disaster is to be avoided throughout the entire Nation in the retail sales as well as service branch of the industry it is imperative that we have your assistance in these matters.

COLLEGE MOTORS,
C. A. GRAY,
GUARANTY CHEVROLET CO.,
PEARSON MOTOR CO.,
RUD STALMEYER, J. R. TOWNSEND CO., INC.,
UNIVERSITY MOTORS.

EDGAR BROS. CO.,
El Centro, Calif., January 3, 1942.

Hon. Ed. V. Izac,
Washington, D. C.

DEAR MR. IZAC: We fear the Government's order freezing all stocks of automobiles now in dealers' hands and to be received by dealers during the current month, may cause great and unnecessary injury to the tens of thousands of

dealers and to their hundreds of thousands of employees. Therefore, we are respectfully offering the following suggestions for your consideration, namely:

1. That dealers shall be allowed to distribute cars now in their stocks and additional cars, which, we understand, they may receive during the current month, to such persons or departments as the authorities may designate, for regular retail prices, without discounts; and that the distribution be made as quickly as possible to avoid unnecessary expense for the dealers.

2. That if the Government elects to take over all cars at once dealers shall be compensated for them at regular retail prices without discounts.

3. That, at all times, dealers shall be permitted to purchase essential repair parts in sufficient quantities to maintain necessary cars in proper operating condition.

4. That all Government agents and departments and all branches of the military forces shall have cars and trucks operated by them serviced and repaired by regularly authorized dealers, so far as may be practical, and shall pay dealers regular retail prices for repair parts and labor.

We believe these suggestions are reasonable and hope we may hear from you regarding them. It is not our purpose to obstruct the Government's defense program, on the contrary we fully approve it and desire to cooperate to the extent of our ability; but, naturally we do not want our business to be sacrificed and our employees thrown out of work, if they and we can be protected in some measure without hindrance to the defense plans.

Respectfully,

EDGAR BROS. CO.,

J. H. EDGAR,

President and General Manager.

ROBERTSON & DUBINGER,

El Centro, Calif., January 5, 1942.

Hon. ED. V. IZAC,

Washington, D. C.

DEAR MR. IZAC: We fear the Government's order freezing all stocks of automobiles now in dealers' hands and to be received by dealers during the current month, may cause great and unnecessary injury to the tens of thousands of dealers and to their hundreds of thousands of employees. Therefore, we are respectfully offering the following suggestions for your consideration, namely:

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Respectfully,

ROBERTSON & DUBINGER,

By JERRY ROBERTSON,

The CHAIRMAN, Congressman Martin.

Mr. MARTIN, Thomas E. Martin, representing the First District of Iowa.

STATEMENT OF HON. THOMAS E. MARTIN, FIRST DISTRICT, IOWA

The congressional district I have the honor to represent in the House of Representatives is in the heart of the greatest agriculture area in the world. The production of food is our greatest interest and our principal occupation. Almost every one of us living in my district has spent many years of his life on the farm.

Every one of us who is more than 40 years of age can contrast the efficiency of modern farming with the slow methods prevailing before the use of the automobile and tractor became widespread.

Within the last few weeks we have been brought face-to-face with a stern challenge to increase our agricultural production at the same time that our manpower has been seriously curtailed, through the need for workers in our arms plants and in our armed forces. Our challenge has also increased through the necessity of feeding a tremendously greater number of people than heretofore. At the very moment this challenge has come to us we find ourselves facing governmental restrictions in rubber and automobiles that will retard our production efficiency even of production effort 25 years ago, unless the officials in charge of the control of rubber and automobile sales make an exception of the farm industry. Some idea of the problem of the transportation can be had from the fact that there are 642 rail-abandoned communities in the State of Iowa alone.

I do not have at hand the number of farms that have either no horses or an inadequate number of horses, but the statement is unchallengeable that very few farms have enough horses and horse-drawn equipment to proceed efficiently without the use of automobiles and tires.

If further sales of automobiles and tires are denied to the farm industry a surprisingly large number of farmers will find themselves without horses, harness and machinery adapted to horse-drawn power and the rapidly approaching season for planting of crops will not wait for adjustment.

Food supplies must be raised in proper season and the machinery and needs for planting, tending, harvesting, and transporting crops must conform to the proper season. Our farmers will patriotically exert themselves to the utmost to conserve the automobiles and tires now on hand, and I know they will go as far as possible to carry on their business with second-hand cars when there are no new cars available.

Farmers are not guilty of extravagance and waste and they will cooperate to their utmost ability in bringing about efficient and expanded production of food with the minimum of equipment for carrying on their business of raising food crops and transporting them to the markets. Our farmers are entitled to the use of automobiles and tires and their plea is not one for "business as usual" but for accelerated production of food through every means within our reach.

The CHAIRMAN. Thank you very much, Mr. Martin.

Mr. Treadway.

Mr. TREADWAY. Allen T. Treadway, Massachusetts.

STATEMENT OF HON. ALLEN T. TREADWAY, MASSACHUSETTS

Mr. TREADWAY. A few days ago I presented to the committee the case of the traveling blacksmith who needed tires. I have an even worse case today from my district.

The chief of the Shelburne Falls fire district, covering neighborhood villages as far as Monroe Bridge, uses his own car as the town has no money to buy an automobile for the fire chief. He is also civilian defense instructor and visits towns in the vicinity to instruct classes. Certainly this man needs tires.

Further than that, he carries the inhalator around when there is an accident near Shelburne Falls.

I think that is making a perfect case and he ought to have tires.

Every automobile dealer in my district is showing the same interest in securing some relief either from your committee or from the administration. I beg to add my request that something be done to relieve the situation so far as the automobile dealers and users of tires in my neighborhood are concerned.

The CHAIRMAN. Thank you very much, Mr. Treadway.

Mr. O'Connor.

Mr. O'CONNOR. Mr. James F. O'Connor, Montana. Mr. Chairman and members of the committee, I have a statement that I want to put into the record.

The CHAIRMAN. It will be entered in the record without objection.

Mr. O'CONNOR. But there is one thing I wish to call to your attention. I have a letter from Mr. H. S. Norcut, of Lewistown, Mont. It will take me only a moment to read it. It covers a phase I don't think has been covered as yet by your committee. (Reading:)

I am a tire repairman and a recapper of tires. What we O. K. rubber welders find very essential in our work is the ability to repair breaks in tires. Being from the West, I know you can understand how the rocks, in the road and in the soil, cut tires.

I am safe to say 25 percent of the recappable tires have small breaks that can be repaired and the tire will be as good as ever for recapping. The last few weeks I have had almost 50 percent as many tires with good tread, some practically new tires with repairable breaks, as I have had tires for recapping. If these tires can be repaired and put back into use they will wear practically as long as a recapped tire and it takes only 4 ounces of rubber to do this, compared to 10 pounds of camelback and rubber materials to recap or retread.

The rocky soil on our farms breaks so many tractor tires, and so forth, that it is necessary that these little shops be kept open for the breaks to be repaired.

If I may presume on the committee for a second or two longer, we must have these little repair shops kept open in some form or other, because if we don't the farmers are going to suffer on the secondary or feeder roads out west, and if those cars break down and are cut, as indicated in this letter, the farmers can't do anything in regard to getting materials to and from their farms.

There should be some sort of an agency or institution set apart by the Government to look after this class of business.

As I understand, there is only about 2 percent of the rubber used throughout the country that is used in the places I have been talking about.

(The statement of Mr. O'Connor is as follows:)

STATEMENT OF HON. JAS. F. O'CONNOR, MONTANA

Gentlemen of the committee, may I emphasize at the very start that little business over the United States is in critical condition and that it is imperative that the Government take all possible steps to protect and encourage small business in this time of great crisis.

Small industries over the entire United States are closing every day and thousands and possibly millions of men are being turned from the ranks of the employed to the ranks of the unemployed because their bosses cannot get material and other equipment with which to carry on production and sales.

I will cite two cases in my own home town in Livingston, Mont., which I may say are typical throughout the whole State of Montana and over the Nation. One is known as the Gateway Motor Co., and the other as the Home Garage. Both of these institutions have grown in the past 20 years from small businesses with two or three employees, including the boss, to progressive organizations which employ from 30 to 40 persons each.

Both of these places in recent weeks have had to cut their forces down at least 50 percent.

If the present situation continues the very organizations themselves—both small businesses, important to the Nation—and their employees will lose practically everything that they have put into this work during the past quarter of a century.

If, for instance, they were permitted to carry on a very small portion of their normal business they might be able to hold things together until we emerge from our present crisis.

The Truman investigating committee, in its recent indictment of several branches of our Government, declared, and I quote: "From the very beginning the committee (the Truman investigating committee) was not satisfied with the treatment being accorded small business concerns."

Automobile dealers, tire shop operators, filling station operators and numerous others are among those whose plight is serious.

A complete halt of all production of passenger cars and light trucks has been ordered for after January 31.

Approximately 450,000 cars had been delivered to dealers when the sale ban was issued and completion of this month's production quota of 204,848 units would bring the total available to a little over 650,000. Approximately 130,000 of these, however, must be stored by dealers until next January under plans announced by Price Administrator Leon Henderson.

It has been estimated that dealers held 33,000 light trucks when the sales ban was ordered. Added to the January production of 24,160 units, this would provide approximately 62,000 units to meet essential needs. The ban on heavy trucks is expected to be issued shortly.

These bans hit little business in a vital spot. If American automobile dealers, on a fair and equitable basis, could move a number of these units now available each month, the situation would be greatly eased.

Farm machinery, trucks, pick-ups, and used automobiles must continue to be repaired. Our farmers must have some method of transporting foodstuffs to and from their farms. Most needed are repair parts. This is vitally important and perhaps will offer a means of allowing many small businesses to continue to operate on a curtailed basis.

The automobile manufacturers have already produced a large number of parts for cars and would suffer a heavy financial loss if not permitted to use them.

It is true we face an acute shortage of rubber. Our peacetime consumption of rubber last year was about 850,000 tons. Previous years averaged 550,000 tons. We have on hand about 700,000 tons. Reclaiming of old tires and rubber can scrape up about 350,000 tons a year for a couple of years.

The repair of stone and curb breaks in comparatively new tires, those which do not yet need recapping or retreading, as suggested by one of my constituents in Montana, will save much rubber and thousands of tires every year if restrictions on the necessary supplies are relaxed. It takes but four ounces of rubber

to repair a tire break—of which there are many suffered on the rocky secondary roads in my district—compared with 10 pounds of camelback and rubber needed to recap or retread a tire. It is estimated that 25 percent of the recappable tires have small breaks which can be repaired, resulting in a huge saving.

Surely, while our rubber supply is pitifully small, sufficient can be allocated to farmers, the most needy of the small businessmen and others to keep their vehicles running and their businesses in operation.

I have received in the last few days no less than 50 telegrams and letters from numerous Montana cities in my district, urging moderation in the handling of such problems.

Gentlemen, without little business continuing on a basis sufficient to keep it from closing its doors, our very war effort will suffer greatly.

It's from small business, the little employers and their employes that Uncle Sam is getting millions and millions of dollars for defense.

The problems of small business in a war economy are basically those of business in general. The cooperation of everyone with Government is necessary to the national defense effort. Yet small business finds it difficult and costly to comply with numerous Government regulations and other requirements. Taxation will be heavy, retained profits small. In an all-out national effort, sacrifice must be demanded of all business, large and small.

A prediction has been made that approximately one-third of the Nation's small businessmen will have to close shop before long because of the dislocations in a shift to war economy.

But if all these men and women employed by small business lose their jobs, how can they contribute to or aid the national defense program? Instead of giving their dimes, quarters, dollars, and hundreds of dollars in exchange for defense stamps and bonds, they will be forced to seek relief from the Government and the Government in turn must spend thousands of dollars to keep them from facing starvation.

Speedy action is seen on President Roosevelt's request for \$300,000,000 in emergency funds to aid the thousands of workers left temporarily unemployed while industry changes over to war production.

Many of these men and women will eventually be reabsorbed in war industries. Others, many of them without a skill, will be forced to look for work elsewhere.

This large sum will be of great benefit to countless American workers. Many, under the rules of the Social Security Act, will not be eligible to receive this compensation. Many are situated in small towns far from the larger centers of population where the war industries are located and will find it difficult to migrate.

While it is not strictly germane to little business, the increased production of sugar beets, which I have advocated for years, would have lessened the unemployment in many Western States and at the same time helped modify our present sugar shortage.

Costs of remaining in little business have increased tremendously. Expenses have continued to climb until the operator is running at a loss. Many patriotic businessmen are continuing to operate on such a basis in the hope that the Government will come to their rescue. However, they cannot continue on this basis for long. They'll go broke and be forced to close up shop, putting more men out of work.

Many of my constituents have wired me as follows and I quote:

"Do everything in your power to get some modification in frozen new cars or have Government take over all new cars at list prices and prevent freezing used-car stocks or there will be no more car dealers left to do business with.

"We are calling on you to use your influence in the fight for our existence. The major business of the United States has had a knockout blow from which it will take years to recover if something is not done to alleviate the present crisis.

"We understand that a House of Representatives committee will meet for a hearing on automobile dealers' problems. We earnestly urge you to attend this hearing and exert your every influence to aid us. We are in hearty accord to eliminate new car production thus converting all automobile factories to war efforts. We gladly sacrifice further new car production for the duration but we do recommend and urge that car and truck owners nationally be allowed to secure parts, tires, tire repairs, tire supplies to operate their equipment on a basis that will allow dealers to survive through shop and repair parts operations.

We further implore you to act in our behalf in regard to our new car and truck stocks on hand, to the end that frozen cars and trucks be permitted to be completely liquidated by July 1 at full retail prices, whatever they are, purchased by individuals or the Government. Freezing of these units in our stock is proving very costly because of interest, insurance, and storage charges. Business as usual has no place in this emergency and we do not want business as usual but it is only fair and just that we be allowed to survive through shop and parts operations and to do this, present tire restrictions should be modified."

These are only a few of the scores of appeals I have received from the people of Montana. They don't want business as usual. They are willing to sacrifice. All they want until the war is over is a chance to make a bare livelihood, keep their business establishments intact and make enough to pay their employees and their taxes. I don't believe that is asking too much of a great Nation like the United States even if we are "all out for war."

One of our principal lines of defense is maintaining our domestic or home economy as much as possible. We don't expect business as usual; we all expect to be called upon to sacrifice and sacrifice a great deal, but we do expect moderate and sane action in relation to our people.

In order to have a unified country, we must have a satisfied people; a people that feel the Government is giving them fair treatment. We who represent these people here in Washington cannot do less.

Some steps to aid small business have already been taken. More, however, are needed and needed immediately.

The Truman committee report declares, and I wish to emphasize this statement, I quote: "A large number of small businesses are already closing their shops. Still more are discharging many of their employees and the results of restricting materials are only just beginning to be perceived. Great care must be taken to assure that we do not destroy the American way of life by adopting the wrong methods of defending them. We must bear in mind that even if defense were our only objective, instead of just our principal objective, we would need a sound healthy civilian economy to support our defense program. It is of paramount importance that we take now the necessary steps to permit the legitimate interests of small business to be safeguarded."

The CHAIRMAN. Thank you very much, Congressman.

We are dealing with that problem now and are as sympathetic as we can be.

Mr. HALL. Edwin A. Hall, Thirty-fourth Congressional District, New York.

STATEMENT OF HON. EDWIN A. HALL, NEW YORK

Mr. HALL. It is not my purpose to present any further testimony. The committee has obtained valuable testimony from various witnesses.

I am simply appearing today in the interest of the tire dealers, the independent automobile dealers of my district.

I live halfway between the cities of Buffalo and New York. It is a strategic spot and the tire, as well as the automobile business, needless to say, are among the important columns of the backbone of the entire community.

I wish to present their plea at this time, and, as I say, I have appeared here because none of them have been able to get here. I want to present just one point before I conclude.

I want to compare the present situation to the social and economic revolution in England about the latter part of the eighteenth century. As one of the great poets has said:

Ill fares the land, to hastening ills a prey
Where wealth accumulates, and men decay;
Princes and lords may flourish or may fade;
A breath can make them, as a breath has made;
But a bold peasantry, their country's pride,
When once destroy'd, can never be supplied.

May I compare the sturdy middle class of England of the eighteenth century to the present day independent dealers and businessmen, small business groups who have been the backbone of communal and business life of this country?

The CHAIRMAN. Thank you very much, Mr. Hall.

Mr. Knutson, I hope you will confine your talk to 1 minute, and later, if you desire, you may extend your remarks.

STATEMENT OF HON. HAROLD KNUTSON, SIXTH CONGRESSIONAL DISTRICT, MINNESOTA

Mr. Knutson. Mr. Chairman and members of the committee, I desire to have inserted in the record a letter from a motor company at St. Cloud, Minn., which I think contains some very excellent suggestions insofar as the small repair shop is concerned, and I commend the reading of this letter to the members of the committee.

The CHAIRMAN. It will be inserted in the record and read by the members of the committee and given sympathetic consideration. Thank you very much, sir.

(The letter is as follows:)

LITCHY MOTOR Co.,
St. Cloud, Minn., January 13, 1942.

HON. HAROLD KNUTSON,
House of Representatives, Washington, D. C.

DEAR HAROLD: There are two angles to the automobile dealer's situation—one, the immediate urgency for relief in the form of Government damages for losses arising out of the freezing orders, payment of full list prices for equipment commandeered, or to be commandeered, temporary Reconstruction Finance Corporation loans to tide over the emergency; two, a long-range program involving a sound operating policy for the duration of the war that makes sense.

In connection with the second angle, the soundest possible program would be the turning the dealers' shops into small defense subcontracting operations tied up with a program of Reconstruction Finance Corporation loans to handle necessary financing. Precedent has already been established in the State of New Mexico, where the Office of Production Management has made a contract with automobile dealers under the pooling arrangement that puts these dealers in the defense business and permits them to function with just as much advantage as the big manufacturer now does.

This program would be the simplest and easiest way to get large-scale production on small defense items available, and it would facilitate handling locally if it were definitely included in the work of the Patman committee.

Let me hear definitely from you on this, please—it is of the utmost importance, and from newspaper reports was side-stepped by President Cargile of the National Automobile Dealers Association in his appearance, perhaps because he has been preoccupied by other features of the situation.

Sincerely,

EARL LITCHY.

Mr. Carlson. Mr. Chairman and members of the committee, your committee is to be commended on the expeditious manner in which it has handled this hearing and the problem which affects every section of the country, and I want you to consider what it will mean to our tax problem if this industry is forced into insolvency or bankruptcy.

We will lose 60 percent of our revenue in the State of Kansas.

The CHAIRMAN. Without objection the gentleman's statement will be filed.

(The statement of Mr. Carlson is as follows:)

STATEMENT OF HON. FRANK CARLSON, SIXTH DISTRICT, KANSAS

It has been my privilege to attend several of these sessions and I could not help but notice the earnestness and sincerity of the witnesses who have testified, and also the intense interest by the large number of persons which has filled this hall practically every day. Every one of us realizes we are facing a problem that seriously affects every community and section of the United States. I have a feeling that if the drastic provisions of this order are continued it will lower the morale of our citizens during this national crisis. Everyone realizes that morale is an important factor in winning a war and therefore I want to urge this committee and the officials of our Government to give serious consideration to easing these restrictions at the earliest date.

The automobile manufacturers are being cared for by large defense contracts. The employees in these industries will soon be transferred to defense work, and this week the President sent a letter to Congress urging that we vote \$20,000,000 for the employees of the automobile industry, in addition to the regular unemployment compensation payments.

I have been greatly disappointed in the consideration being given the automobile dealers, oilmen, repairmen, tire and tire dealers, and others vitally affected by the freezing order. This order is especially disastrous to the agricultural sections where little or no defense expenditures are being made. In these areas the automobile, tire, gasoline, and oil dealers have been the backlog of our business economy. It is not easy, in fact it is practically impossible, for men connected with these industries in agricultural sections to secure employment in national defense work. It is much easier to shift workers residing near the automobile industry than to provide work for those who become unemployed in the distribution centers. During the past 10 days I have received a large number of letters and telegrams from citizens in my district who are greatly affected by this order.

There is another side to this problem that I want to mention and that is our Government's need for taxes. This great industry has carried a large portion of our tax load. If we force this group into bankruptcy it will mean greatly curtailed revenue for our Federal, State, and local governments. It is a problem that is of grave concern. I can see where this order in the future might reduce gasoline taxes in certain localities and States as much as 60 percent.

Gentlemen of the committee, I appreciate your problem and am confident you are going to make some recommendations to Congress and the administrative officials of our Government that will give relief to this great group of patriotic citizens who want to do their part in the national crisis, but at the same time must have some means for carrying on.

The CHAIRMAN. Thank you very much, Mr. Carlson.
Congressman Pittenger.

STATEMENT OF HON. WILLIAM A. PITTENGER, EIGHTH MINNESOTA DISTRICT

Mr. PITTENGER. I have some considerable correspondence and part of it I will insert in the record. I attended the hearings last week and listened to the testimony of the automobile dealers and other people interested in the automobile business. I want to say to this committee that that famous or infamous freezing order of New Year's Day was, in my opinion, so drastic that in many cases and in many problems of the automobile business it will defeat its own purpose.

This committee has a real job. You men occupy one of the most responsible positions given any committee of the House of Congress, and I hope if legislation is necessary to bring relief, that you will not hesitate to have it introduced properly.

The CHAIRMAN. Thank you very much.

STATEMENT OF HON. FRANK CROWTHER, THIRTIETH CONGRESSIONAL DISTRICT, NEW YORK

Mr. CROWTHER. It will take me but a minute or two.

As you know, my home town is Schenectady, where General Electric and American Locomotive Works are located.

I am appearing on behalf of the tire dealers and automobile dealers in general, and on behalf of the people employed in those plants.

At present they have their automobiles and tires, but in a city of 97,000 to 98,000 inhabitants we have 40,000 employees in the two big plants. It is humanly impossible for that number of employees to come from a 97,000 population, so they come from Albany, Saratoga, Amsterdam, and various places and an immense acreage surrounding General Electric is devoted to the use of parking automobiles and there are 10,000 to 15,000 there every day.

Just within the last few months we have taken the last of our electric trolley system off the streets and are now on what you might call a rubber basis as regards transportation.

That is going to make it exceedingly difficult in a city devoted almost entirely to defense industries.

I can't add anything to the vast fund of information you have had here, and I present my own personal problem and the difficulties that are apt to result in a great defense center as a result of the rationing.

The CHAIRMAN. Thank you very much, Dr. Crowther.

I understand that Congressman Reed of New York wishes permission to file a statement. He was unable to appear because of other engagements.

That permission is granted and the statement may be filed and if later he wishes to extend his remarks that permission is also granted.

STATEMENT OF HON. MELVIN J. MAAS, FOURTH DISTRICT, MINNESOTA

Mr. MAAS. Melvin J. Maas, Minnesota. I have had a considerable experience with this small-business situation from the beginning of this defense effort, and participated in the Midwest conference of small businessmen, and I am convinced that the backbone of the whole American system is the so-called small businessman, the independent concern.

I am also convinced that if we are going to substantially increase our war effort in the production field that it must be by harnessing up small business.

The total employment and total number of tools available and the total resources of small business in the aggregate is far greater than the so-called big concerns all put together; so that either by way of subcontracting to the so-called small concern, or organizing pools of allied small concerns, they must be harnessed into this effort.

It may interest you to know that in England we found the only solution to the small business problem was to wipe out small business. The social implications in England are going to be terrific.

The CHAIRMAN. That is very interesting, Congressman, since I know you recently returned from England and visited London for 2 or 3 weeks. Isn't that so?

Mr. MAAS. Yes.

The CHAIRMAN. You mean to say they wiped out all small business entirely?

Mr. MAAS. Outside of retail distribution.

They physically took the tools from small business, machinery, and put them into those new plants and moved the labor. They worked management into the net set-up and independent small business virtually does not exist in England any more.

I greatly fear we are heading in the same direction and I am concerned immediately, of course, because I am convinced there is a great lag in production by that system. The conversion wastes many months that we haven't got to spare and there are going to be far less post-war problems if we have not dislocated the population and industrial equipment.

Our capital investment may be so far divided as to change the whole complexion of American life. It seems to me we should try to preserve the American system in the effort itself, particularly if it will help us do that very job. I am convinced we can do a better job by preserving the essentials of the fundamental American system and utilizing this great reservoir which is today almost untouched.

The CHAIRMAN. Thank you very much, Congressman.

STATEMENT OF HON. CARL T. CURTIS, NEBRASKA

Mr. CURTIS. Carl T. Curtis, of Nebraska.

Mr. Chairman, and members of the committee, I do not want to become burdensome to the committee, but I speak not only as Representative of my district but I have a message from another committee of Congress.

The Tolan committee, authorized to investigate national defense migration, have held three field hearings on small business. In St. Louis we conducted a 3-day hearing and called in panels of stove-makers from Belleville, and had St. Louis and Kansas City manufacturers also. We were in Omaha, Nebr., and held a hearing along the same line, and then we felt we wanted to go to a small American town in the interior, preferably, and see what national defense was doing to the small business, and we held a hearing in Hastings, Nebr., a town of 15,000 people with 20 manufacturers.

We have a volume of testimony for each of those places. I would commend every word of that testimony to this committee.

The CHAIRMAN. I wonder if you will furnish sufficient copies for the members of the committee? Suppose you furnish us eight copies.

Mr. CURTIS. I shall be glad to.

Let me digress to say I am very seriously concerned about the situation in the automobile industry. It is being covered by other witnesses, but I do want to say something about the small business and the defense program, and I could give you two witnesses, a Mr. Holland, who appeared at St. Louis, and a Mr. Glantz, who appeared at Hastings.

The CHAIRMAN. Isn't their testimony in the record? I think I have seen it.

Mr. CURTIS. Yes, sir.

I do not suggest you reprint all of our hearings, but you might wish to reprint the testimony of those two men.

In the Middle West a manufacturer of furniture in a town of ten or twelve thousand received a request to bid for 14,500 flat-top desks. He has been in that business over a quarter of a century and can make them better than anybody in the United States. He was given 2 days' time to get his bid back to the east coast.

In a small town of 1,700 people a manufacturer who runs a machine shop—and the Ordnance Department of the Navy says he knows how to make anything that is asked for—picked out some articles that fit his plant and the request for bid came in the mail and he had 6 days. It was impossible for him to get the blueprints, to negotiate the costs of the raw materials, and get his bid back. He was stopped from bidding before he started.

The subcontracting and the direct bidding is not reaching the small businessman of America.

Now, if I may say one more thing, it is this: In addition to the extension of time, I would approve everything Mr. Maas said and make the suggestion that production engineers go through the country from plant to plant and put the small businessman to work, and I would like to insert an article prepared by me containing the recommendations of these three hearings entitled "The War and Mid-western Small Business."

Mr. FITZGERALD. Your committee made quite an investigation of migration?

Mr. CURTIS. That is right.

Mr. FITZGERALD. You know, as well as all of us, that transportation is going to be quite a problem for these workers in these defense areas.

Mr. CURTIS. That is quite true.

Mr. FITZGERALD. What is going to happen, in your opinion, if they are not able to receive tires? Do you think the Government is able to build enough houses in the vicinities of these defense shops to take care of these workers who are driving 35 and 40 and 50 miles and back to work every day?

Mr. CURTIS. I don't know the answer to this tire thing. I think it is critical. I believe we are sunk on our defense effort unless we harness small business and the plants and let the people work where they are.

There are only a few plants that can make a tank or airplane. Thousands can make parts for them.

In Australia the government is building assembly plants and going from plant to plant and putting the small businessman to work. They are using housing, school, and community facilities right where they are.

Mr. FITZGERALD. Bringing the work to the man instead of bringing the man to the work?

Mr. CURTIS. Yes.

In the article I have asked leave to insert in the record I have a number of recommendations directed to that very thing.

Again, I do not want my lack of statement regarding automobiles to reflect the lack of interest, but it has been covered.

The CHAIRMAN. Thank you very much, Mr. Curtis, and your statement will be inserted in the record and will receive the sympathetic consideration of the committee.

(The statement submitted by Mr. Curtis is as follows:)

THE WAR AND MIDWESTERN SMALL BUSINESS

By Congressman Carl T. Curtis, of Nebraska, Member of the Tolan Committee
(House Committee Investigating National Defense Migration)

Out in the Middle West thousands of small businessmen who piloted their firms through the critical years of drought and depression are today faced with plant black-out.

As our all-out victory program more and more rigorously curtails the production of civilian goods through the enforcement of priorities, the little man finds himself being pushed out of the picture.

He knows that in England since the war began more than 20,000 small businesses have been forced to shut down. He knows that that pattern may well repeat itself here unless the Government launches immediately a production program that utilizes every man and every machine in the country.

It was upon this small businessman and upon the thousands of his employees who will have no choice but to take to the road when curtailment reaches the limits set by the Government that the House Committee Investigating National Defense Migration focused its attention at recent hearings in Nebraska. Realizing, of course, that the crisis of the small businessman is not confined solely to the Middle West, the committee nevertheless chose this section because here other forces have combined with priorities to make his plight particularly acute.

At Hastings, Nebr., a panel of small businessmen gave their side of the story. It reflects what is happening all over America to the small manufacturer, unable to compete for defense orders yet cut off from civilian-goods production; to the distributors of automobiles, radios, washing machines, and vacuum cleaners; to the groceryman, the realtor, the banker, the doctor in those small communities where industrial life is gradually stagnating.

The publisher of the Hastings Tribune, whose business is seriously handicapped now by the lack of metals and chemicals, summed up the town's problem succinctly:

"Hastings is the same as a man who had ulcers of the stomach and got cured of that, then got cancer and got cured of that, and then had to have his arm amputated and, when he was finally getting well, got run over by a truck.

"First, we had no prices for our crops, then we had our period of drought, and we had no crops, and then the rainfall came back and we had a brighter agricultural picture . . . and all of a sudden the Government has taken all of our young men and women into civil service, our mechanics into defense plants. And we are faced, also, with plant shut-down due to priorities.

"We have suffered a serious loss in population, making it difficult to get labor . . . our manufacturers are having an increasingly hard time getting materials. . . . There is difficulty in finding tenants for houses. There are no building programs, because there are more houses than there are people to put in them. . . . The defense program has torn people out of this territory and put the young men in areas that we feel don't have the advantages that we have here in the Middle West."

Through the stories of all the businessmen ran the same theme: the acute shortage of materials, tools, and men.

The head of a firm manufacturing agricultural implements can no longer get ball bearings and scrap iron. A grain-bin manufacturer, who managed to keep his business alive throughout the depressed thirties when the farmers to whom he sold had been forced to get rid of their livestock, is today faced with failure because of the lack of steel necessary for the manufacture of his product. Out of a total of 40 employees he has lost 21 since late summer; fearing a lay-off due to priorities, many have taken defense jobs elsewhere.

The head of a wholesale hardware firm, founded in 1890, presented to the committee a list of merchandise which he formerly sold but which has been withdrawn from the market. It included furnace pipes and elbows, galvanized sheet iron, corrugated roofing, aluminum cooking ware, pliers and wrenches, rules and tape, tools, all rubber- and copper-covered wire, electric wire, electric switches, conduit and conduit fittings, and pipe. In addition, he can get only a fraction of his requirement of nails, wire, fencing, bolts, coal and gas ranges, saws, stovepipe, gasoline irons, lamps, lanterns, wrapping paper, paper bags, shotguns, rifles, and silverware. Without these articles, the very lifeblood of his business is stopped.

Speaking of the loss of manpower which the State has sustained since the defense program began, this same merchant reported that 7 percent of his former employees have moved to California within the past year to work in aircraft plants, 2 percent to other Western States, and an additional 0 percent to a greater outmigration of youth than the drought did in the past.

The owner of a chain of small groceries in 18 towns in the State told of sharp decreases in business due to that very population loss. "A one-time family of four is now only a family of two," he estimates. "We have had a lot of trouble keeping our clerks and butchers. They are leaving for defense areas. Out of a hundred employees we have lost 30 in the last year and a half."

A hotel owner reported that many salesmen are being taken off the road as delivery on such products as radios, stoves, furniture, chemicals, lingerie, drugs, and paper is curtailed. Those catering to the traveling public thus are seriously affected.

With his own business dying, the small operator in most instances is cut off from the quickening flow of defense orders. Numerous factors operate against him in competing for Government orders.

In the panel of Hastings businessmen several manufacturers complained that, though their prices are often lower than those of eastern firms, their great distance from raw materials and markets for the finished product make it impossible for them to compete. One manufacturer cited a concrete example: "One item that we bid on," he said, "is part of a tent top which is made of sheet metal. The total bid was \$1.20 and of that 17 cents was for freight, which constitutes a large part of the price per piece of merchandise. Back East the bids ran from 60 cents to considerably above our bid. But the fact is that plants farther east, closer to the supply of raw materials and also to the market for the finished product—which is a big factor in securing that business—had the edge on us."

Other manufacturers stressed the fact that the Government Procurement Division does not allow sufficient time for them to make intelligent bids. Within the 5 or 10 days allowed small plants, handicapped by not having a large personnel of engineers, are unable to ascertain, first, whether they can buy the necessary raw materials and then to figure costs. How serious can be the consequences of a failure to make a bid one witness demonstrated graphically. A small-parts manufacturer, he went over the list of articles sent him by the Procurement Division and found that there was one incendiary-bomb part that he could produce. Only 6 days, however, were allowed him to make his estimate and file his bid. Though he tried strenuously, he was not able to locate raw materials and figure costs during that time. He failed to get in his bid and possibly to get an order that would have kept his plant alive temporarily. Today he is faced with complete shut-down.

Many plant heads thought that it would be of great assistance if a Government engineer operating through the Defense Contract Service at Omaha could go over small-plant facilities with the superintendent and help him determine just what articles could be produced, and that the Government engineer should be vested with authority to actually negotiate a contract and start the concern in war production.

The manufacturer of sheet-metal products who recently fulfilled a defense contract by drawing upon most of the industrial facilities of Hastings expressed a feeling that the Government has not gone far enough in the field of "exploding," as the process of breaking down a product into its component parts is called in England. Although few firms can take order for tanks, thousands can manufacture tank parts without any difficulty or without considerable retooling. Recently the Chrysler Corporation, by "exp'oding" tank production distributed to 800 contractors tank parts that ranged from 2-cent articles to \$500 ones.

However, neither subcontracting nor exploding is the complete answer for the Middle West. Here, too, the factors of time and space operate against the little man, as well as the fact that often the expense of retooling with expensive precision machines is more than he can expend.

New plants are a crying need.

At the Omaha hearings it was pointed out how the location there of a bomber plant and a shell plant had contributed toward stemming the tide of priority depression. Throughout the section the repercussions from this industrial stimulation are making themselves felt. Although defense jobs out of the State had already drained much of the skilled labor from Nebraska, 100 percent of the common labor on the construction of one of these plants was furnished by local workers, thus taking up the slack of those left idle by plant shut-downs.

Not only would new plants fan to life a dying industrial economy, they would also stop the tide of out-migration which threatens the stability of the American way of life. As Dr. John Creighton, president of Hastings College, pointed out: "The basic institution of America is the home. Next come three houses, the church-house, the schoolhouse, the courthouse. Home life, religion, education, and observance of law—these are American characteristics. The migration from artificial causes that we now see in this area is inflicting damage on home life, church life, and school life."

Other witnesses, making a plea for new plants within the States, pointed out the natural resources of power that would make industrial expansion practicable. "In general," reported George E. Johnson, general manager of Central Nebraska Public Power and Irrigation District, "we can accept national-defense loads without limits as to energy up to approximately 50,000 kilowatts, and additional demand up to approximately 100,000 kilowatts can be assumed." The public-power districts have also purchased a large number of steam generating plants and these plants have been tied into the electric grid system. Other hydro plants may economically be installed at the Kingsley Dam; below the Loup River public power district's plants; and on the Republican River. These plants could produce an additional 150,000 horsepower.

Looking toward the utilization of new plants after the war is over, Mr. Johnson told the committee: "If plants producing for our needs during peacetime can be converted into producers of war munitions, we believe that plants producing war supplies can be converted to producing for our peace needs. . . . Due to fluctuating weather conditions this territory's economy will not become stable until sufficient industries take up the slack during adverse years."

As to after-defense utilization of new plants, leading State chemurgists recommend their conversion for manufacturing plastics and other products that use the State's agricultural resources. Each year a large number of raw materials, such as cornstalks, grain sorghums, and straw, are wasted. These materials can be turned into products useful to industry if the processing plants are located where the wasted products exist.

One of the chief objections that opponents of decentralization offer against new plants is the cost of erection. Due to population losses the Middle West can absorb new workers and their families without undue strain to existing community facilities. The fact that the Government would not have to provide housing, schools, sewers, and water supply in this area, as it has in many defense centers, would go far toward recouping the cost of new plant construction.

The present danger of air raids on the west coast emphasizes the military need for decentralization. The military danger of placing our new plants in coastal areas has not in the past been given adequate weight. Already air-raid psychology may have reduced the efficiency of aircraft workers on the west coast. Air raids which we have every reason to believe will occur may actually destroy some of these new plants. It is not too late to heed the logic of our military position. The decision should be made now to build new plants in the interior of the Nation.

Not only of the little man was the committee thinking when it recommended on the basis of its hearings measures that would swing him into the arc of production. It was thinking also of the welfare of the country in which the little man is one of the first citizens. Committee recommendations concerning small business, included in two recently published reports to Congress, are as follows:

1. That greatly increased numbers of new plant facilities, both public and private, be placed throughout the interior of the country and that Congress take whatever steps are necessary to bring this about.
2. That a single civilian board of the Federal Government be charged with full responsibility for procurement and for planning war production and the production of essential civilian needs.
3. In accordance with a policy of full use of existing industrial capacity, a systematic plan of putting to work all idle capacity and converting consumer-goods industries to war production be instituted.

A. Under this plan, the largest facilities should be immediately converted; medium- and small-sized plants be successively converted.

B. Meanwhile, in order to protect small business, existing allocation procedure should be geared into this conversion plan by graduating supplies of raw materials for civilian production sharply in favor of small- and medium-sized companies.

4. That regional offices be established directly under this board to execute its policies and plans on a regional basis where necessary and practicable.

5. That the regional offices act as clearing houses for small- and medium-sized companies both with respect to information and the actual letting of prime contracts. These offices shall have full authority to negotiate contracts to the end that small firms may participate in war production.

6. That there be further expansion of subcontracting, of pooling devices, and other methods of incorporating small producers into the war program.

7. That the technique of "exploding," where major war products are subdivided into their components and manufactured separately, be pursued as far as possible.

The lengthening of the time in which to submit bids to the Government for defense articles will be one of the main recommendations in a further report soon to be submitted to Congress.

Bound inextricably to the fate of the small businessman and to thousands of American communities sustained by a one-industry economy, is the fate of America itself. Unless the country can harness the ready energies of all of its people, utilize every hand for the production of war materials in an all-out program that matches that of its enemies, our hope of freedom and victory may be seriously jeopardized.

STATEMENT OF HON. STEPHEN A. DAY, CONGRESSMAN AT LARGE FROM THE STATE OF ILLINOIS

Mr. DAY. Stephen A. Day, congressman at large from the State of Illinois.

I want to pay my respects to the chairman and members of this committee and to congratulate the Nation that they have got you on the job.

I have been especially interested in the problem of the small businessman and in our State of Illinois the National Small Businessmen's Association has been very active. Our president, Mr. Frederick A. Virkus, is probably one of the outstanding men in the Nation and he has worked on this problem, and, in connection with his efforts, has submitted to the Senators and Representatives from the State of Illinois in the form of a petition, certain facts which are the result of a careful survey which he has made, a survey made both by himself as president of the Illinois Small Businessmen and also on behalf of Mr. Ingersoll of the Illinois Chamber of Commerce.

I will ask leave to put this in the record at this point.

The CHAIRMAN. Without objection, it will be received in the record. (The data submitted by Mr. Day is as follows:)

REPORT ON MATERIALS SHORTAGES EFFECTS ON SMALL INDUSTRIES IN THE STATE OF ILLINOIS

By the Illinois Division, National Small Businessmen's Association

To the Senators and Representatives From the State of Illinois in the Congress of the United States:

When business first began to feel the pinch of materials shortage, even before it became acute and became a national issue, our associations began to hear from members, and many who were not members, asking what to do. It was, obviously, impossible to answer questions without first learning the conditions which caused the materials shortages.

Therefore, the Illinois Division of the National Small Businessmen's Association undertook to make a survey among those industries most seriously affected and found the following facts which we believe that you, our representatives in the Congress, would wish to have. The percentages given are based on the answers to questions given in the questionnaires employed in this survey. Attached hereto is a copy of the questionnaire.

The questions: "Could any part of your plant produce defense orders of any kind, and if so what percent of your plant?" were answered as follows:

	<i>Percent</i>
Entirely adaptable.....	26
Three-fourths adaptable.....	13
One-half adaptable.....	22
One-quarter adaptable.....	10
One-tenth adaptable.....	8
	<hr/>
Not adaptable.....	88
	<hr/>
	100

The question: "Have you tried to secure defense orders?" was answered:

	<i>Percent</i>
Have applied for subcontracts:	
At Washington.....	20
Office of Production Management, Chicago.....	37
Ordinance Bureau.....	16
	<hr/>
	73
Have not applied.....	15
Plants not adaptable.....	12
	<hr/>
	100

The question: "With what results?" was answered:

Have received subcontracts or indirect orders.....	22%
Have received no contracts or indirect orders.....	51%

The question: "How many employees have you laid off?" was answered by 27 percent of those reporting, and these stated they have already reduced their number of employees from 1 to 75 percent each.

In this connection, it is impossible to give the total number of employees discharged because a number of concerns failed to give the total number of employees on their pay roll. However, judging from what is known about the concerns reporting, it can be deduced that the larger concerns have discharged a larger percentage than the smaller ones. It is known that the over-all average number of employees of these industrial concerns is 112 per plant, and that the unemployment situation is becoming serious.

The answers to the last question are:

Unless defense contracts can be secured by small industrial plants, or unless they can get materials for normal production,

	<i>Percent of State</i>
Go out of business.....	64
Curtail production.....	17
Do not know.....	12
No comment.....	5
Use substitutes.....	2
	<hr/>
	100

As to the materials shortage, the survey disclosed that:

Percentages requiring—	
Steel as their prime material.....	45
Aluminum.....	20
Brass.....	19
Copper.....	13
Zinc.....	12
Wire.....	10
Iron.....	10
Chemicals.....	8
Fibre board.....	7

Other materials are 5 percent or less requirements. These statistics led to our investigation in the effort to discover the facts about the production, armament requirements, export allocations, and surpluses, if any, for civilian requirements, of these materials. We regret to state that our inquiries to the Department of

Commerce and the Office of Production Management failed to give us any information whatever. The best report we were able to get on strategic and critical materials is Union Calendar No. 340, House Report No. 862, July 21, 1941; which, however, does not give all the facts desired. However, we were fortunate in securing the facts on the most widely used material of all—steel—and we submit herewith as a part of this report the facts given to us by the president of The American Iron & Steel Institute, and we quote:

REPORT FROM THE AMERICAN IRON AND STEEL INSTITUTE, NEW YORK, AUGUST 4, 1941,
WALLER S. TOWER, PRESIDENT

"Replying to your recent letter of inquiry with respect to figures relating to the steel industry, the production of steel ingots in the first half of 1941 was at the rate of approximately 82,000,000 tons for the year.

"For this calendar year, according to current official estimates and reports, the requirements for our defense program and for export to Great Britain and Canada represent an ingot equivalent of about 18,000,000 tons. For 1942, the present estimates are somewhat higher.

"Meanwhile, the industry's ingot-producing capacity is increasing steadily. At the end of 1941, the rated capacity of the industry will approximate 88,000,000 tons of ingots, an increase of 6,000,000 tons in 2 years.

"The facts now available, therefore, indicate that both in 1941 and in 1942 there will be fully 67,000,000 tons of steel-making capacity which can be used for domestic civilian uses and for exports to countries other than Great Britain and Canada. Since such exports are unlikely to exceed an ingot equivalent of 3,000,000 tons, the capacity available for nonmilitary uses would seem to be close to 64,000,000 tons.

"Such a total is higher than has ever been used in this country, and even in 1940 the aggregate of domestic consumption, including defense and civilian uses, was only 55,000,000 tons of ingots.

"Admittedly, of course, full future requirements of the defense program are not predictable with any finality of exactness, and estimates are constantly changing. But nothing has happened to date to disturb the fact that the steel industry has a capacity to supply the needs of defense several times over."

The statement that 64,000,000 ingot tons of steel are available for civilian consumption led us to inquire why the small manufacturer cannot get steel for his needs. We are reliably informed by steel producers that the reason is that priority orders are placed in such a way that efficient and steady flow of steel is impossible because of frequent change from one kind of production to another kind. We are informed that if one or a group of steel mills were permitted to produce sheet steel, as an example, without interruption, another mill to run on armor plate, another on structural, another on rods or bars, and so on, they could flood the market with all varieties of steel required for defense, export, and civilian needs as well.

We have reports that similar conditions apply to copper, zinc, and other materials, but we cannot get the facts. We have found that some trade associations which should have the facts pertaining to their particular lines of business, are reluctant to disclose information for reasons of their own. Apparently only an official inquiry can elicit the facts.

It is our considered opinion that if the facts were known the shortage of materials would be found to be greatly exaggerated. We base our belief on the credible reports that the mines and mills of the country are not as yet producing the raw materials at full capacity. When this is done, and this is obviously the first essential for defense as well as for civilian needs, we firmly believe that there will be sufficient of all but perhaps the imported materials.

Since the essential facts evidently cannot be ascertained by an individual, group, or organization, we respectfully request the cooperation of our Senators and Representatives in Congress to take the steps we believe to be necessary to secure these facts in behalf of the preservation of the Nation's business enterprises. To this end we present herewith a petition, as follows:

To the Senators and Representatives from the State of Illinois in the Congress of the United States:

Whereas it has become apparent by the actual closing of a number of industrial plants and it is acknowledged by Government spokesmen that a large proportion of the smaller industrial plants throughout this country are doomed to extinction because of the so-called shortage of materials for civilian uses due to the armament program; and

Whereas there are about 470,000 small corporations throughout the land, of which number approximately 145,000 are now vitally affected by metals shortage, due to the armament program, to such an extent that a majority of these will be compelled to close their plants within a few months at the most if they cannot obtain armament orders or materials for production for civilian uses; and

Whereas this particular group of metal-using plants average 112 employees per plant, or 16,240,000 workers, it is apparent that the extinction of a majority of this group of industries alone would inevitably affect adversely every other line of trade, industry, commerce, finance, transportation, and the professional services throughout the land and threaten the destruction of the entire economic structure of this country; and

Whereas there is ample reason to believe, if the true condition were known, that the so-called shortage of materials is greatly exaggerated and would be found to be so if all the facts pertaining to production, armament requirements, exportation, and essential civilian needs are disclosed; and

Whereas it is of common report and set forth in Union Calendar No. 340, House Report No. 982, of July 21, 1941, on strategic and critical materials, on page 28, as follows: "It was painfully apparent throughout the testimony given before this committee that a lack of coordination and absence of a responsible head with authority and power to fix responsibility in this, as well as in other matters, has been largely responsible for the deficiencies we now are experiencing all along the line. The administration has been too prone, when difficult problems arose, to easily dispose of them by creating another board, only to add to the confusion of the assortment of agencies we now have. We are now plagued with and will continue, evidently, to be harassed because of the absence of a coherent organization. We are overblessed with boards and committees and with a legion of liaison officers feeling the necessity of consulting first with this or that agency. All of this has resulted in a deadly consuming of time, and in the end we still have a divided authority": Now, therefore, be it

Resolved, That the Senate and House of Representatives be, and hereby are, petitioned to designate a joint legislative committee to—

1. Ascertain the facts about production, imports and exports, armament priorities, and surplus, if any, for civilian needs of the strategic and critical materials;
2. Ascertain the quantities of strategic and critical materials heretofore exported, and earmarked for export in the future under the Lend-Lease Act, to England, Canada, China, Russia, and other countries;
3. Ascertain what becomes of these materials, what proportions are used for the purpose intended (production of armament), and what proportions are manufactured into consumer goods and offered for sale at home or abroad;
4. Ascertain the extent of hoarding and bootlegging materials;
5. Ascertain the extent of the issuing of priorities for materials for armament orders and shipbuilding which are scheduled to begin production or construction months ahead, thus tying up materials long before they are required and thereby depriving industry of the materials in the meantime;
6. Ascertain to what extent steel manufacturers, as an example, are required to operate their plants in a manner to prevent the greatest efficiency in production and economy in operation by too frequently changing their production from one form of finished or semifinished product to another;
7. And, in accordance with the above-mentioned report in Calendar No. 340, to take the absolutely necessary steps to bring order out of the confusion and chaos now prevalent in the administration of the armament program by:
 - (a) Insisting upon the designation of a single individual, in whom the people of the United States as a whole have confidence, as the head of the program, with full authority and responsibility; and
 - (b) Eliminating overlapping bureaus, commissions, committees, and red tape; and
8. To render a full, complete, and accurate report as promptly as possible to the people of the United States as to the matters set forth in paragraphs 1, 2, 3, 4, 5, 6, and 7 hereof.

In behalf of the 157,000 small businessmen and the 46,000 professional and personal-service men and women in the State of Illinois, the National Small Businessmen's Association respectfully requests that the State's Senators and

Representatives in the Congress jointly sponsor a resolution for the appointment of a legislative fact-finding committee for the above-named purpose.

Respectfully submitted,

THE NATIONAL SMALL BUSINESSMEN'S ASSOCIATION,
FRED A. VIRKUS,
President, Illinois Division.

Mr. DAY. In conclusion, Mr. Chairman and members of the committee, I believe the preservation of small business is most vital to any problem we have today in the Nation. Some way must be found to keep the small businessman and his employees at work and get the vital raw materials to him.

I am satisfied that the committee's hearings have been very constructive and you will come to some real conclusion that will be beneficial to us all.

The CHAIRMAN. Thank you very much.

Mr. Burger, you had a gentleman here from Minneapolis yesterday. Will you have him come forward and give his name and district to the reporter?

Mr. MALKERSON. I am Lester A. Malkerson; I am in the tire and service business in Minneapolis, Minn.

STATEMENT OF LESTER A. MALKERSON, OF MINNEAPOLIS, MINN.

Mr. MALKERSON. First, of all, I want to assure you gentlemen I appreciate this privilege of appearing before you. It gives a young man still hope that we still have an America where a young man can continue on in business, particularly his own business.

We employ 21 cars and service tires and retread tires. I am in Washington because of several things, the most essential to the small businessman being in the matter of retreading tires. We have had instances throughout the United States, and the Government has records of this and they know it to be a fact, where company-owned stores are controlling the distribution of the camel back which is produced by their manufacturers. By that I mean that as the flow of camel back comes from the manufacturer it goes to its branch office and thence to the company-owned and operated store and stops there. I have a headline in the Minneapolis paper which states an O. P. M. official was in Minneapolis and verified this fact.

The CHAIRMAN. Read that headline.

Mr. MALKERSON (reading):

Illegal sale of tires, hoarding of rubber, probed in Minnesota. Evidence is obtained by investigator. Official reports three cases of chiseling bared.

And then, further, it states that persons are hoarding retread rubber in Minneapolis and St. Paul. We have telegrams and also letters, which I wish to introduce into the evidence, to prove that fact. Not only that but the O. P. A. office has a statement of their own men indicating the same thing is happening to independent dealers all over the country. They do not have to be small dealers; they can be large, independent dealers.

There appears to be an effort by company-owned stores to control the flow of retreading material. When the camel back gets to company-owned stores they have approached other retreaders with the statement that they will furnish them camel back if they will retread the tires that come from the company-owned stores and insinuate, if

we do not do that, we will be out of business and they will be glad to buy the machinery from us. There are in the United States about 2,100 company-owned stores and 20,000 independent dealers.

The CHAIRMAN. And you think an effort is being made now to squeeze out the independent dealers in favor of the company-owned stores?

Mr. MALKERSON. No question about it from the reports we get from all over the United States.

The CHAIRMAN. Go ahead.

Mr. MALKERSON. One other thing I wish to call your attention to, and that is this: Right at this moment the presidents and managers of the rubber companies are meeting at the O. P. A. office, discussing the possibility of financing new-tire stocks which are in dealers' hands. I have been informed by quite reliable sources that the scheme or the thought of the thing is that these tire stocks that are out in independent stores, if the dealer wants to be relieved of the tires, they are to go back to the manufacturer and the R. F. C. is to finance the manufacturer in the manufacturer's warehouse and under his control.

The CHAIRMAN. How many companies are involved in the large group?

Mr. MALKERSON. Four.

The CHAIRMAN. And you think the plan is to have the R. F. C. finance the Big Four?

Mr. MALKERSON. The Big Four control the tire industry. I estimate they sell about 80 percent of the rubber goods sold in the United States.

The CHAIRMAN. Go ahead.

Mr. MALKERSON. This is what I believe is going to happen in that process: As these tires continue to flow out again, on receipt of our allocation slips from the tire-allocation boards, those tires are going to flow back through your company-owned stores again.

There are no more passenger cars being built and they will have control of a large proportion of the tires in the United States, and those tires will go back to the company-owned stores and freeze out the independents.

Another thing, the company-owned store will go to any end to get this business. We know the company-owned stores will operate at a loss of \$20,000 a year and their managers will be called into Akron and given a gold medal for a good job.

The CHAIRMAN. Why would they consider it a good job if their losses were \$20,000?

Mr. MALKERSON. Where they make the profit is on the differential between the mill-door price, or so-called sales price to the company-owned store, and they are interested in tonnage. That is what it has been until this present emergency. That is why we are so worried about what might result in the future, because of past practices.

This thing will become still greater in that many of them, when we discuss the situation, will say, "Get out of business." But many of us own our own properties or have long-time leases.

During the past years it has cost us 30 percent to do business. Our sales are being cut, necessarily so, on account of the all-out defense problem, but we have no relief in sight because the way the

thing is going now the major company stores will have control of the merchandise from the beginning of manufacture to the distribution.

The CHAIRMAN. In other words, you are warning this committee that unless something is done 20,000 independent dealers will be forced into bankruptcy and the 2,100 company-owned stores will have charge of the business in the United States?

Mr. MALKERSON. That is right.

The CHAIRMAN. I believe it is the sentiment of this committee—at least I have so expressed it to the officials—that the tire business should be handled by the independent dealers, and some very high officials in this Government, more than one, are connected with the largest mail-order house in the country, and one among them has said that the mail-order houses carry tires, and that is only one item out of 50,000 for them.

The large oil companies handle tires, but they do not depend upon tires for their profit. They depend on oil and things sold in connection with oil.

For that reason the independent tire dealer depending only on the tire business and whose life or death depends upon whether or not he will be allowed to continue in that business, should be given preference, and all recapping and retreading and everything in that business should be done through the independent tire dealer.

We know that is being given consideration by the authorities in the administration today. We hope they will adopt that policy. If that policy is not adopted I think this committee will take some kind of action—we are not saying that as a threat or anything like that—but we are working with them and they appear to be sympathetic to what we are trying to do, and testimony such as yours will be helpful to this committee.

Mr. MALKERSON. I want to say this. I have talked to O. P. A. officials on this and they have given it considerable thought and are somewhat in favor of it, and that is in regard to the financing of these tires.

There are 8,000,000 passenger-car tires in the United States, and on the present method of rationing they will probably last about 4 years.

One method of assisting the independent dealer is this: Most of the larger independent dealers in the larger centers of population, such as Kansas City, St. Paul, Duluth, and others, have in those localities bonded warehouses. Each State has a rationing coordinator who is a paid staff member. He is being paid for his time. Why couldn't we, as independents, take these tires to a bonded warehouse, get a negotiable receipt and endorse it and send it to the coordinator, and as we get applications for tires, which have been approved, go and draw out a tire from the bonded warehouse and the Government knows where the tires are, and we could pay the Government for the tire at the time and sell it and realize our normal profit. In that way the Government knows where the tires are.

That would stop this bootlegging which is going on. They are sure of their security and it would keep us in business.

Thank you.

Mr. FITZGERALD. Have you discussed this complaint with the Department of Justice at all?

Mr. MALKERSON. I have.

Mr. FITZGERALD. They know about it?

Mr. MALKERSON. Yes, sir; and they know of many others and the Justice Department has talked to O. P. A. and they are investigating it.

(The data submitted by Mr. Malkerson is as follows:)

EUREKA, CALIF., January 19, 1942.

OFFICE OF PRODUCTION MANAGEMENT,
Washington, D. C.:

Believe something wrong with some rubber companies in their allocation of Camelback for recapping purposes. U. S. Rubber Co. and General Tire & Rubber Co. my suppliers in past. Have received this month 700 pounds only from United States, none from General. Two competitors in Eureka, about same size as I have, received 2,000 and 3,000 pounds, respectively, this month from their suppliers. I don't want anything that nobody else gets, however I don't want to be discriminated against. Unless I get my fair share I will have to lay off half of my crew. Please advise what action you are taking? Passenger car sizes is what we need most.

TONY GOSSELIN.

BAUM & ADAMSON.
January 19, 1942.

Mr. LEON HENDERSON,
Office of Production Management,
Washington, D. C.

DEAR MR. HENDERSON: We appreciate that a lot of things have to be done at this time to speed our war effort and to insure its success, and I think we small independent business people are all willing to do our part, but we do not believe that we should be taken advantage of by the large corporations, who are getting defense contracts and also running tire treading plants over the country.

There are seven independent treading plants in southern Arizona, and one Firestone Co. owned plant. Most of the independent plants have or are about to shut down because of lack of camelback. Our plant is the largest in southern Arizona and has been for years, and we will have to shut down the end of this week.

Most of the independent plants have been in business more than 4 years. The Firestone plant started operations on August 28, 1941. Our supplier of camelback for the past 6 years has been the B. F. Goodrich Co., and during the past 3 months they have shipped us a total of 3 tons of camelback, and advise they can ship us no more this month. The Firestone store has been for 4 months turning out from 69 to 80 tires per day, and using from 8 to 10 tons per month. A week ago they received a 3-ton shipment.

We have been treading about 75 percent of the truck tires that have been treading in southern Arizona, and at present for truck tires alone we need from 2½ to 3 tons of camelback per month. Our plant will turn out more than 60 passenger car tires per day which would consume an additional 7 tons per month. This month Goodrich shipped us 1,000 pounds.

If it is necessary for us to go out of business to help win the war, we are for it, but we want a square deal, and want company-owned stores to go out also. We hope your office will do all it can for the small people, and we would appreciate some reply.

Yours very truly,

BAUM & ADAMSON,
J. HAROLD ADAMSON.

Mr. HENDRICKS. Mr. Chairman, I would like to note my appearance here today, Joe Hendricks, Fifth District, Florida, and be given the opportunity of later presenting a statement to the committee.

The **CHAIRMAN.** Congressman Beckworth, of Texas, desires to make a statement.

STATEMENT OF LINDLEY BECKWORTH, MEMBER OF CONGRESS FROM THE THIRD CONGRESSIONAL DISTRICT, TEXAS

Mr. BECKWORTH. Mr. Chairman, and members of the committee, I wish to make a very brief statement to indicate my interest in the problems which face automobile dealers in our locality, being dealt with and being solved as soon as possible.

In our locality we have a lot of consolidated schools, schools, which, of course, use busses, and right now many of these schools are having considerable difficulty with their phase, and anything the committee can do to help see that the schools continue to run and that the busses operate so that the students may be carried to the schools, will be greatly appreciated by the people in that county.

I should like to file this.

The **CHAIRMAN.** Without objection the statement will be filed in the record.

STATEMENT OF D. G. HALE, COLORADO SPRINGS, COLO., HAWKINSON TREAD SERVICE, INC.

The **CHAIRMAN.** You testified the other day, did you not?

Mr. HALE. That is right.

The **CHAIRMAN.** I understand you wanted to make a brief statement to the committee.

Mr. HALE. That is right, Mr. Chairman.

Substantiating the remarks made by the gentlemen from Minnesota, I would like to put into the record that for a number of years I was a store manager for one of the major rubber companies.

The **CHAIRMAN.** Which one?

Mr. HALE. Firestone Tire & Rubber Co.

In the Biltmore Hotel in Oklahoma City, at a conference on December 10, 1932, Mr. J. W. Thomas, president of Firestone Tire & Rubber Co., asked the store managers to make only 5 cents a month or 60 cents, as the net profit for the entire year of 1933, and that substantiates the fact that was brought out that the manufacturer does have his profit on the merchandise as a manufacturer and is not interested in making a profit in the field from the retail operation.

After being moved from Lubbock, Tex., where I was store manager at the time this incident happened, I was moved to St. Louis as manager of the Firestone store at 2807 Olive Street. This store was opened in 1935 and we had definite instructions from the district manager, Mr. Joe E. King, to go out and get the independent tire dealers' business regardless of whether he was our dealer or how he paid his bills or how much volume he had given us in the past.

The CHAIRMAN. In other words, give him competition he couldn't possibly meet?

Mr. HALE. Definitely, yes.

The CHAIRMAN. Put him out of business?

Mr. HALE. Right.

The CHAIRMAN. Was that over the entire Nation?

Mr. HALE. Throughout the Nation, so I understand.

The CHAIRMAN. What about the other large tire concerns? Did they have the same policy?

Mr. HALE. So far as I know; yes.

The CHAIRMAN. Have you any other statement?

Mr. HALE. That is all.

The CHAIRMAN. Thank you very much.

Mr. Burger wants to make a brief statement.

Mr. BURGER. George J. Burger, 250 West Fifty-seventh Street, New York City.

STATEMENT OF GEORGE J. BURGER

Mr. BURGER. Mr. Chairman and members of the committee, the statement that Mr. Hale made can be substantiated in a survey made by the Senate Small Business Committee. They have reports from 200 to 300 tire dealers throughout the Nation confirming the statement Mr. Hale made as to the manufacturers.

The CHAIRMAN. You mean Senator Murray's committee?

Mr. BURGER. Small Business, print No. 3, issued August 1941.

I have one or two statements I believe the committee should have in the record. Here is one from a tire dealer, W. W. Acuff, at Nashville, Tenn. He wrote me on January 16, the copy that I never received, and the letter is as follows:

On December 30 we wrote the local collector of internal revenue in response to their first demand for payment of the floor tax on automobile tires, explaining that the stock of tires reported as on hand October 1, 1941, was still intact. Further, that the administration in Washington had frozen tire stocks and that there was no way for me to get my money.

Today we air mailed to Mr. George J. Burger, our representative in Washington, a second demand notice from the local collector of internal revenue, which demand stated that if we did not pay this floor tax on tires within 10 days, the Government would seize my property.

Won't you please endeavor to get some relief for me on this? We have not sold a single tire under the rationing plan, and we understand that less than 6 tires have been sold under the rationing plan to private car owners since January 7. When these few tires are divided among 200 or more dealers in this country the stock we have on hand will last 2 or 3 years.

We are now endeavoring to secure other lines of merchandise with which to carry on and we need the little capital we have left that is not frozen in the form of new tire stocks to enable us to carry stocks of other merchandise.

Mr. Chairman, I got in touch with internal revenue the day before yesterday, and they have granted, at my request, a 10-day stay of execution to this dealer, but stated unless the tax is paid by February 1 they will seize the merchandise.

The CHAIRMAN. That is an independent dealer and he is compelled to pay a floor tax on the tires?

Mr. BURGER. Yes.

The CHAIRMAN. The 2,100 company-owned stores don't pay any tax until the tire is sold?

Mr. BURGER. Exactly. They have not paid any floor tax, nor have they paid any excise tax. That is in your tax bill.

The **CHAIRMAN.** When the new tax bill comes before the Ways and Means Committee, do you expect to present that?

Mr. BURGER. Certainly. At the recommendation of the committee I was instructed to prepare a brief which is being made up at the present moment.

I have one other letter from a tire dealer, United States Tire Supply, Twentieth Street, Birmingham, Ala., dated January 16. It reads:

DEAR MR. BURGER: I noticed in last night's Birmingham newspaper there was some discussion of Congressman Bulwinkle of North Carolina, as to the delivery of tires and tubes sold previously to the freezing of tire inventory. I have approximately \$1,000 in these tires which same have been paid for 6 or 7 months ago which are still in my stock.

What do you think the possibilities are in the near future of being able to deliver this merchandise? Our rationing board here will not permit us making delivery on them. If we could deliver these tires it would certainly relieve a heavy obligation on our part.

I have one other letter which I will not read, from Cezean Tires, Ltd.

The **CHAIRMAN.** Without objection, the letter will be received and inserted in the record.

Thank you very much, Mr. Burger.

(The letter referred to above is on file with the committee.)

Mr. BUTLER. I have here a statement which I would like to have inserted in the record.

The **CHAIRMAN.** It will be entered in the record today.

(The statement submitted by Mr. Butler is as follows:)

STATEMENT OF JOHN C. BUTLER, MEMBER OF CONGRESS FROM THE FORTY-SECOND CONGRESSIONAL DISTRICT, NEW YORK

We all realize that this war is going to require more and more restrictions upon small-business activities and it is also going to require the united efforts of small businessmen themselves in order to make the best use of available supplies. However, before closing up the little fellow, I think that he should be consulted, that he should have an opportunity to talk things over. He is willing to help and he will cooperate to the fullest extent if he is only given a chance to do so.

The small contractor has to work through general contractors, and I think this is a hindrance to small business. The large electrical manufacturing companies used all the small electrical businessmen to build up their business for years and allowed them to make a small profit on their sales. Now these same companies sell direct to the Government and other large manufacturers. They have no more need for the small fellow. This has been the way that small business is being crushed by big business. I really think that in the case of the auto dealer, it has been the hardest, because the Government issued orders to freeze everything in the sales of automobiles. I think that they should have included in this order the freezing of all expenses of these dealers, such as rent, light, heat, taxes, both county and local, insurance and many other items of expense that keep piling up.

Many of these small businessmen will have to go through bankruptcy to get out from under a condition created through no fault of their own. The manufacturers of automobiles have been taken care of. They have been given large contracts to produce war materials. They will get all the help they need. I think the least our Government can do is to help the other half of the automobile industry—the dealers who have sold cars.

The freezing of the sale of automobiles involves serious problems for all of us, the worst being that of unemployment. Many employes now being let out are unemployable elsewhere. Something will have to be done to help them. I think that the small businessmen and the automobile dealers are facing a very serious situation and it is hoped that a satisfactory solution can be arrived at.

The CHAIRMAN. I have here a statement of Oscar Youngdahl, Congressman from the Fifth District, Minneapolis, Minn., which will be inserted in the record at this point.

(The statement submitted by Mr. Youngdahl is as follows:)

STATEMENT OF OSCAR YOUNGDAHL, CONGRESSMAN, FIFTH DISTRICT, MINNEAPOLIS, MINN.

Mr. Chairman, during the past several weeks I have received many communications from various concerns in my district, relative to the recent orders in connection with temporarily freezing the sale of tires and automobiles.

I am happy to state that in no instance was there exhibited any bitterness, but, on the contrary, there was a grim realization that business must curtail and suffer, as well as those associated with it, to advance our all-out war effort. Pledges from the members of labor unions affected by these orders, to cooperate to effect the successful conclusion of the war; admission by tire and automobile concerns of the necessity for curtailment and reorganization; and statements of the willingness on the part of these people to take serious losses, is evidence of their patriotic attitude.

However, I feel we should attempt to aid this very loyal group in working out a plan that will permit the automobile and tire dealers to liquidate their stocks on hand, and to continue on some reduced basis, in order that the minimum needs under our rationing plan may be furnished with the least possible confusion and dislocation.

It has come to my attention that certain antiquated sizes of tires are in the stocks of many dealers, which sizes would probably be of very little benefit to our military forces. They are used on the old vehicles of our rural districts, where the automobile is used to run from farm to town for supplies. There are other types of tires in this general category, which would be of little use for defense purposes. Rather than keep them on the shelves, permitting them to deteriorate, dealers should be permitted to sell them under regulations set out by our rationing authorities.

It has also been contended that the necessary fabrics or materials for re-treading should be distributed equitably under rules and regulations so that all dealers, whether part of a factory or independent, might have the same treatment along this line.

Many automobile concerns have bona fide orders that they had taken prior to January 1, 1942, in which the used automobiles have been taken in on a new car sale, delivery being delayed until later on in the spring. It is contended that these bona fide orders should be cleared and permission given for delivery. In one instance in my district, one manufacturing concern has made a practice of turning in a fleet of trucks in the fall, giving orders for a new fleet to be delivered in February or March. This practice was carried out last fall and the new trucks are ready for delivery in the warehouse.

Under such conditions the dealer feels that permission should be given for this order to be delivered, so that the manufacturing concern may be able to continue in business this spring.

The conclusion that I have reached from listening to many small-business representatives, as well as to tire and automobile dealers, is that all are willing to do their share in a coordinated effort to bring about an early victory for our country. They expect to make sacrifices, and are prepared to do so, but they respectfully request that an orderly plan be worked out whereby they might be permitted to carry on in some small way until the time when we shall return to a peacetime economy.

As a Member of Congress vitally interested in the problems of our smaller businessmen, and having pledged in my small way to cooperate and work in our war effort, I believe some plan should be worked out, and will be worked out, for the relief of these people.

I therefore respectfully urge this committee to bring their conclusions and recommendations to the attention of Congress as soon as possible, and also to

the attention of the proper officials in order that such a plan might be put into operation at the earliest possible moment.

The **CHAIRMAN**. The statement submitted by Congressman Tolan will be inserted in the record at this point.

(The statement submitted by Mr. Tolan is as follows:)

MEMORANDUM SUBMITTED TO THE SELECT HOUSE COMMITTEE ON THE NATIONAL DEFENSE PROGRAM IN RELATION TO SMALL BUSINESS

By Representative John H. Tolan, chairman, House Committee Investigating National Defense Migration, January 23, 1942

In response to the courteous invitation of Chairman Patman, I am glad to submit herewith, on behalf of the House Committee on National Defense Migration, the following brief memorandum regarding some of the results of our committee's public hearings as they throw light upon the situation of small business under the impact of the national defense program. In the course of various studies of the causes and effects of the current defense migration in every part of the Nation, one of the subjects which came to our attention was the problem of the closing down of small businesses either for lack of critical materials or war orders. This often affected whole communities and caused serious out-migration. On the topic of small business our committee of course defers to the select committee of which Congressman Patman is chairman as the appropriate and authoritative body for carrying this special study to its conclusion.

I venture to call attention first to the recommendations of our committee, contained in our first interim report, dated October 21, 1941, regarding the possibilities of decentralization and subcontracting of defense contract awards. This is a procedure in which small businesses have an immediate interest. Our committee's recommendations (found on pp. 103-104) on this subject read as follows:

"1. The committee recommends that greatly increased numbers of new plant facilities, both public and private, be placed throughout the interior of the country, and it urges that Congress take whatever steps are necessary to bring this about. The distribution of contracts and new plants should seek to minimize the congestion of population and prevent the present nondefense areas from being stripped of their trained workers and young people seeking employment.

"This recommendation is made for the following reasons:

"(a) Decentralization will minimize the migration of workers from the interior.

"(b) Decentralization will more readily develop a balanced industrial agricultural economy in all sections of the country.

"(c) In the committee's opinion, the sooner decentralization is achieved, the less arduous will be the readjustments which must follow this defense effort.

"2. The committee recommends that subcontracting be, to the maximum degree possible, an essential part of all contract considerations and urges that Congress take whatever steps are necessary to bring this about. In the committee's opinion, enforcement of compulsory subcontracting to small firms should be applied, excepting only those contracts which, by the nature of the work required, do not permit of the practice.

"This recommendation is made for the following reasons:

"(a) Subcontracting will speed the production of defense materials.

"(b) Subcontracting will assist in making fuller use of small business equipment and will assist in preventing the elimination of much small business enterprise.

"(c) Extensive subcontracting will, in some measure, stabilize the labor force in smaller industrial areas of the Nation.

"These recommendations on decentralization and subcontracting will, in the opinion of the committee, assist in the quicker utilization of available manpower and equipment. In so doing, they will also strengthen the morale of our people."

I take this opportunity of citing also a recommendation for "Participation of small and medium size companies in the war effort," contained in our Second Interim Report to Congress, dated December 18, 1941. After having recommended the establishment by the Federal Government of a single civilian board charged with full responsibility for procurement and for planning war

production and the production of essential civilian needs, this civilian board to have regional offices to execute its policies, we further recommend as follows:

"The committee recommends that—

"1. The regional offices advocated (above) act as clearing houses for small- and medium-sized companies both with respect to information and the actual letting of prime contracts and subcontracts. In this way small companies will have within reasonable distance a Government agency which not only can give them full information but will be able to make full arrangements for their participation in the war effort including the negotiation of contracts.

"2. There be further expansion of subcontracting, of pooling devices, and other methods of incorporating small producers into the war program.

"3. The technique of 'exploding,' where major war products are subdivided into their components and these manufactured separately should be pursued as far as possible. In this way these major war products can be produced by a large number of small- and medium-sized establishments."

Our committee is engaged at present in preparing a third interim report, based on public hearings at St. Louis in November 1941, dealing with the situation of the smaller businesses and smaller businessmen in the great Midwest region, which is the home of tens of thousands of this type of business.

We shall be pleased to furnish Chairman Patman with printers' proofs of this report in full as soon as they are available.

STATEMENT BY HON. THOMAS A. JENKINS, MEMBER OF CONGRESS, TENTH OHIO DISTRICT

Mr. Chairman and members of the committee, I appreciate this opportunity to say a few words in behalf of small business. There is no question but that small business is being put to a terrible disadvantage in this gigantic plan for war preparation. It would seem to me that many plans prepared and orders issued have been entirely too drastic. For months I have been endeavoring to relieve the situation in my district as much as I possibly can. I have had some success in the matter but most of my efforts have not been nearly as successful as I would like for them to have been.

I was terribly shocked by the drastic orders issued by Leon Henderson in connection with the sale of automobile tires and with the management and sale of automobiles. I appreciate that we must win the war but at the same time I appreciate that it ought not to be necessary to drive hundreds of law-abiding, hardworking American businessmen into bankruptcy. I do not agree with Mr. Henderson that the course adopted by him was the best possible course to have adopted.

I was present at the hearings when the automobile dealers presented their case. I have been a Member of Congress for nearly 18 years and have attended many meetings of that kind. I think I can say without exception that this was the most enthusiastic and most worth-while meeting of its kind that I have seen here in Washington. The high purpose and the sensibleness of this group was such that Henderson and his crowd immediately gave consideration to their protest and relieved the situation somewhat.

It is not my desire to make a long statement. In fact I want to make my statement short but I reiterate that I am firm in my belief that the small business interests of the country have been discriminated against shamefully and unnecessarily in many cases. My only hope is that your committee and others working in the same direction may be able to relieve the distress under which small business labors in this country at this time.

STATEMENT BY CONGRESSMAN JOSEPH B. BRYSON, FOURTH DISTRICT, SOUTH CAROLINA

Mr. Chairman and gentlemen of the committee, it has been my privilege and to my great advantage to sit in practically every day upon the hearings of your committee. May I take this opportunity to commend your distinguished chairman, Congressman Patman from Texas, as well as you, my other colleagues, members of the Select Committee on Small Business, for the time you are giving out of your busy lives to seek to solve the difficult problems now confronting what we are accustomed to call small business. I would like to state first of all that there can be no question about the patriotism on the part of the auto-

mobile dealers or others engaged in the selling of automobile accessories. As evidence of the full desire to cooperate in the defense program, I insert herein a letter received by me from the automobile dealers of my home town some days ago.

"The Greenville Automobile Dealers Association appreciates very much your wire of recent date indicating your understanding of the present desperate situation of the 44,000 automobile dealers and their 500,000 employees of the United States.

"We have been notified by Mr. L. C. Cargile, president of N. A. D. A., that there is to be a hearing in Congress on Tuesday, January 13, at which time detailed consideration is to be given this matter. We do not know whether or not you are an active member of the committee conducting this hearing, but we do request that you be present and use your influence in our behalf. Mr. Martin Bridges, local N. A. D. A. director, will be present for this hearing.

"We wish to restate the fact that we are 100 percent in favor of the defense effort as a whole but we feel that no one group should bear more than a fair share of the burden and that there should be no discrimination.

"Respectfully,

"Eugene B. Smith, Inc., by Eugene B. Smith; Martin Bridges, by Martin Bridges; Thackston Chevrolet Co., by B. F. Thackston; Boyd Motor Co., by James J. Boyd; Kilgore Motor Co., by B. M. Kilgore; Fred A. Fuller, Inc., by Fred A. Fuller; Easterby Motor Co., by Thos. H. Easterby; Baker Motor Co., by Wm. S. Baker; Roy Bass Motor Co., by Roy Bass; Greenville Auto Sales, Inc., by Lindsey J. Forrester; Collins Motor Co., by R. D. Collins; Attaway-Easterlin-Sprouse, by A. D. Attaway; Clayton Motor Co., by C. M. Clayton."

Mr. Chairman, with the confidence that I have in our President and his advisers, there can be no question but that the drastic orders now applying to the automobile and accessory dealers generally will ultimately be relaxed. Surely there will be some way to meet the Nation's needs and at the same time permit these legitimate businessmen to continue in their fields of service so that they may pay for their own property or rents on leased property and so that they may pay wages to their many employees. In my own district there are many business concerns of modest means who are carrying on with all their might and main. Not a murmur has been heard from them nor from anyone else for that matter when they are advised that we of this Congress have placed taxes upon them in amounts heretofore undreamed of. I make this brief statement in behalf of all of the legitimate automobile and tire merchants of my district, who would repeat that they are first and foremost all-out for national defense but at the same time hope to preserve the only way they know in which to make a livelihood for themselves and their families.

STATEMENT OF HON. JOHN H. FOLGER, FIFTH DISTRICT, NORTH CAROLINA

We can't save small and medium-size business by simply talking about it. Under our present situation these must have definite representation in the scheme of things. The Government must provide this. There should be 48 surveys made, by the Government, of small business. This may be done under any one of several departments: The Department of Commerce; the Department of Labor; the Department of the Interior; or by one of the agencies of Government, such as the successor to the Office of Production Management. A sufficient number of people should be immediately dispatched to each State to see, hear, and report the kinds of business embraced in this category; look at their plants and places of business; determine what may be done to qualify these quickly for production of defense materials, while there may be carried on allowable, necessary production for civilian use. Then scatter these activities over the country so as to provide work, as largely as possible, to people at home.

You will not find so many that can manufacture airplanes or tanks, but there are hundreds of other things to be produced. Work out what ought to be done and then in cooperation with the War Production Board and other competent governmental agencies proceed. In this way not only retail automobile dealers, but other small business may be given a chance to live and to provide means of a livelihood for others.

I beg to make reference also to small and medium-size contractors and, as well, architects, in connection with construction work for the War and Navy De-

partments, as well as others, and to appeal for a policy of letting these contracts, not as a whole, but in such a way as that contractors may afford to bid; or better, perhaps, that negotiation may be made for several activities comprising an entire project. This is mentioned not by way of all-inclusion, but as an example.

STATEMENT OF HON. JAMES A. SHANLEY, OF CONNECTICUT

Mr. Chairman and members of the committee, no small business-man who has ever appeared before this committee or who has contacted any member of the House of Representatives comes away with any idea of but the utmost conviction and the desire of the committee and the Congress itself to keep small business in a proper picture in our national economy. Yet despite all of our efforts the small businessman still finds himself struggling to keep afloat.

In no small way the problems are represented by a firm in my district, The Elm City Rubber Co., of New Haven, Conn., which I think is typical of the problem throughout the country. Yet it is more than typical in that few officers of any concern have ever been more energetic and more eager to help his own problems than the president of this company.

I am taking the liberty of including the correspondence of this concern from its earliest days back in 1939 when it made an offer of its services and facilities to the then Assistant Secretary of War, the Honorable Louis Johnson, in his contemplated educational preparedness program. The correspondence included in this file is in many instances a day by day example of the sincerity of the concern itself.

I need not add that all of this has been done at high cost and a wide expenditure of time and effort. Yet it is so symptomatic of the small business problem in America that it is worthy of our study. I am happy to say that despite all of the discouragement and seeming rebuffs the concern is still anxious to assist as exemplified by the last letter in this collection.

I have said repeatedly that if we cannot keep small business and win the war the victory will only be accompanied by some type of a fascist state. The real test of the absence of fascism or regimentation is the freedom and safety—yes, the existence of small business.

BRIEF OF ELM CITY RUBBER CO., NEW HAVEN, CONN.

Our interest in national defense started April 11, 1939, at which time we wrote to the Honorable Louis Johnson stating our desire to be a definite part of the educational program which was started at that time. Attached is photostatic copy No. 1 of our letter to him. In answer to this letter the Assistant Secretary of War showed his keen appreciation on advising us that not only had our offer been placed on file with him, but also that copies of our letter were being furnished to the proper agencies of the War Department. The attached photostatic copy No. 2 identifies this statement.

At this same time on April 11, 1939, we also wrote to Col. M. B. Willett of the Boston quartermaster zone. On April 19 we were advised by this department that copies of our correspondence had been forwarded to the New York quartermaster zone in Brooklyn. This is mentioned to bear out the fact that along with the Assistant Secretary of War notifying departments of the War Department, we, too, had followed the same procedure. On April 12, 1939, Col. M. B. Willett wrote us stating that in the event of war, deep interest would be shown regarding our availabilities for manufacturing war products. A photostatic copy No. 3 of his letter is attached.

By May of 1940 we still had not received any educational orders nor the survey of our factory for its potential possibilities for war production, though there had been much correspondence with the various departments.

On May 18 we wrote to Col. M. B. Willett suggesting that we might possess equipment available for further uses than the original suggestions, photostatic copy No. 4 of which is attached. On May 21, 1940, our letter of May 18 was acknowledged by Lt. Col. John A. Baird, photostatic copy No. 5 of which is attached.

Referring to the above paragraph where mention is made of contacts with the various departments, on June 15, 1940, Lt. Col. George Spann wrote to us in reference to an industrial survey which had been made in April 1939, of our

company, and expressed the statement that we were listed for the procurement of certain textiles in the event of national emergency. At that time it was suggested that a textile technologist, Mr. John Lester Green, visit our plant. A photostatic copy No. 6 of Lieutenant Colonel Spann's letter is attached.

On June 17, 1940, we wrote to Lt. Col. George F. Spann telling him that we would be pleased to have their textile technologist visit our plant on or about June 20. Also, that we would look forward to his visit, gladly being of any service possible. On July 12, Maj. A. B. Proctor, of the War Department, wrote us that due to an unusually heavy schedule their technologist would be unable to reach our firm until some future date which proved to be July 25. Photostatic copy No. 6A.

At the time of Mr. Green's survey, because of our profound interest in national defense, he advised that we go on record in the War Department offering our services. A photostatic copy No. 7 of this letter is attached.

The Quartermaster Supply Office definitely attempted to place us in some source of aid. An additional letter dated August 16, 1940, from Lieutenant Colonel Proctor asked us if we were not in a position to manufacture rubber items mentioned in his letter. Unfortunately, however, we could not do anything to assist him though we continued to express our desire to be of such an advisory standing.

On October 21, 1940, we again wrote to Lieutenant Colonel Proctor stating that we believed there would be many necessities which would be classified as nuisance items. To clarify this we were referring to products definitely needed, but not in quantities large enough to warrant competitive companies bidding on them. In this letter it might also be interesting to have on record the following quotation:

"I fully appreciate that some of the items mentioned above may not be in your department, possibly in the Medical Corps, but I believe that this whole matter can be summed up in a few words. In my staff and myself there are several years of rubber experience represented. If some matter reaches your attention in which we might cooperate by offering our individual and undivided attention, I am positive that the near future will find us an intrinsic part in the Defense Program of the United States of America."

To quote from Colonel Proctor's letter of October 30 answering this offer of ours, we believe the following is self-explanatory:

"Since your organization is of an unusual nature, it would seem fitting that your recommendation be followed. We will continue to list you as a source of narrow rubber sheeting in our plans with the thought that should a requirement come to our attention that you could handle, you will be quickly notified."

On November 1, 1940, Lieutenant Colonel Proctor again wrote us in reference to his October 30 letter asking him to sign a schedule of productions which would cover a similar entry made in their industrial mobilization plants. Through some oversight, or loss in transit, this schedule was not received by Colonel Proctor and on December 5 a schedule request was made quoting the second paragraph of his letter:

"As there is no record of its receipt and as the textile plan is dependent on accepted schedules, I would be grateful for your help in signing and returning one copy of it in the enclosed self-addressed envelope which requires no postage. The second copy of the schedule is intended for your files."

Again a period of correspondence existed and in our apparently vain attempts to assist, in April 1941, we again suggested products that could be produced for the benefit of the Quartermaster Corporation. Mr. Green, the technologist, had returned to our factory making a further survey at which time new possibilities were suggested. On his return to his office we expressed our willingness to Lt. Col. A. G. Stevens. To quote from his letter of May 1, 1941, we believe the last paragraph of his letter expresses the increasing feeling of confidence in our sincere applications.

"You can rest assured that the serious thought you are giving our defense problems and the courtesies you extended Mr. Green on his recent stay with you are appreciated.

Signed: Lieut. Col. A. G. STEVENS."

On August 21, 1941, we attended the Defense Clinic in Hartford, and after spending the full day investigating all possibilities we finally had the pleasure of discussing our problems with Captain Adams, of the Chemical Warfare Department, Boston Branch. It was then suggested that there would be a definite requirement of gas repellent clothing and that if and when appropriations were

made, due to our factory set-up, we would be in excellent consideration for their production. On the suggestion of Captain Adams, we wrote to Major Whiteside, of the executive office of the Boston Chemical Warfare Department giving him in brief as clear a picture of our plant as possible. Photostatic copy No. 8 of this letter is attached.

As a result of this letter we were advised that a Major Briel would shortly come to our plant to make a survey. Photostatic copy No. 9 of Major Briel's letter is attached. To date survey has not been made. Shortly after war was declared, we telephoned Captain Adams and he advised us that the near future would find our plant being surveyed and at that time we expressed our desire to also be included as potential assemblers of gas masks. On January 5, 1942, our president, Mr. Robert M. Blake, went to Washington endeavoring to expedite defense orders. This was done with full realization that besides the contacts made in the past with the various reports of the War Department, several visits to the Office of Production Management in Hartford and many letters of correspondence with the different departments of Office of Production Management in Washington, such as our letter to Mr. Floyd Odium of the Contact Department Service fully explaining our equipment and our extreme concern at not having yet received any defense orders. The answer to this letter stated that we should contact their officers in Bridgeport, New York or Hartford, all of which had been done.

Upon arriving in Washington our Mr. Blake contacted all of the departments which might be of service. Extremely interested in the matter of producing gas masks, he went to the Chemical Warfare Department headquarters, seeing at that time Lieutenant Colonel Rowan. He was advised that the only way the Elm City Rubber Co. could be listed as a possible manufacturer or assembler would be through the Boston office surveying our factory and advising them of our adaptability and availability. His attention was called to the fact that Major Briel in Boston had promised such a survey in September 1941 and that said survey had not yet been made. As a result of this conversation we discussed this matter with Congressman James A. Shanley, of Connecticut. This conversation resulted in Major Briel being written and a request made to expedite the survey. Despite the fact that the survey was not made, however, on January 7, our firm received notification of our names being added to the manufacturers' file of the Chemical Warfare Department, photostatic copy No. 10 of which is attached.

On January 9, 1942, Major Briel advised both Congressman James A. Shanley and our company that he would be at our plant on Thursday, January 15, copies of both these letters are attached (copy No. 11 and No. 12).

However, on January 15 our company received a letter stating that Major Briel was unable to keep this appointment, and up to the writing of this has yet to make a survey of our factory.

To further show the interest that we have taken in this problem, we believe that the following data is worthy of consideration:

On November of 1941, our president, Mr. Robert M. Blake, discussed with Edwin L. Howard, district manager of the Priorities Field Service in Hartford the consideration of minimizing the amount of items manufactured, but necessarily in order to conserve rubber and other chemicals required by the Government. On December 15, 1941, Mr. Howard wrote to us suggesting that we contact Mr. Lessing Rosenwald in Washington. Photostatic copy No. 13 of said letter is attached.

On December 16 we wrote to Mr. Lessing Rosenwald. Photostatic copy No. 14 of said letter is attached.

On December 22, Edwin W. Ely, chief of Simplifications Branch of the Bureau of Industrial Conservations answered this letter, copy No. 15 of which is attached. Our firm having attempted to secure defense contracts for such a long period of time reaching vainly into all of the various departments felt that we deserved some consideration and fully realizing the crisis as a result of our war with Japan, insofar as rubber is concerned, we knew that something must be done and done immediately. Taking this into consideration we did not desire to have our key employees faced with unemployment. Since in the manufacture of sheet rubber goods an extremely higher type of skilled workers is required and their ability and speed particularly in the assembling of gas masks or any other rubber products, would be an asset to the war production problems. With this in mind, our firm appealed to the rubber and rubber products branch on January 6, 1941. A photostatic copy No. 16 of this appeal is attached. The thought behind our appeal is expressed clearly and concisely, definitely showing that our desire for rubber was not to stay in our present type

of rubber business, but to preserve and keep an organization together which has been so willing to cooperate with the United States Government over a period of years, not just since December 7, 1941. We cannot stress any too strongly how definite we are regarding the importance of our type of rubber workers. Notwithstanding this, on the basis of appeal as presented at that time, and despite the fact that no more hardships could be thought of than being completely put out of business, the attached photostatic copy No. 17 is in answer to our appeal.

Despite all this, further attempts are still being made and on January 19 a member of the Office of Production Management office in Hartford is expected to make a survey of our factory. Request for this survey was made on January 15, 1942, photostatic copy no. 18 of which is attached. He further will file an additional appeal, this one not to act as an aid to carry us over a period of waiting for defense contracts, but merely hoping that we can use some of the rubber which we possess and is on our premises which would show a substantial loss for us unless we could be granted this privilege. Developments of this will be attached at a later date.

As a matter of local color to show an example of non-profitable advice given by various departments, on January 15 we were advised that the O. A. G. O. in Providence, R. I. was desirous of obtaining rubber gun covers. On this same date we wrote to Ralph Ostberg telling him of our desire and abilities to assist him. His answer to us arrived stating that he knew nothing about the matter as yet since no appropriation had been made to furnish said covers.

It is our contention that we have done everything humanly possible to be of service to the national cause and that nothing but blind alleys have met our attempts. Therefore, we hope that this information will prove valuable in causing legislation which will assist not only ourselves, but many more unfortunates faced with the unusual problem of being willing but not being of service.

(Photostatic copies of letters referred to are on file with the committee.)

The CHAIRMAN. Do you have anything else to present this morning? (No response.)

I think we will probably have a meeting Monday. It is not absolutely certain yet. We will certainly have one on Tuesday at 10 o'clock to take up the matter of scrap again. We will probably have one on Monday, but the announcement will not be made until tomorrow, so without objection the committee will recess subject to the call of the chair.

(Whereupon, at 11 a. m., the committee recessed, subject to call.)
(The following letters were submitted:)

WASHINGTON, D. C., January 19, 1942.

HON. DONALD M. NELSON,
Director, War Production Board,
Washington, D. C.

DEAR MR. NELSON: Reference is made to the proposed transforming of the automobile industry to national defense production.

The serious problem confronting the various local automobile establishments (dealerships) can be solved by the utilization of these establishments and personnel therein for mechanical and national defense training centers. These establishments, particularly the larger ones, have a large floor space, all necessary truck, automobile, and tractor repair machines and machinery, together with shop foremen and mechanics with long and successful direct training and experience in the assembling, repairing, and servicing of this machinery. The War and Navy Departments will not be able to rapidly train mechanics and machinists for assembling, repairing, and conditioning of war machines. Neither will they be able to have (promptly, at least) at the various Army-Navy training centers the shop material and equipment for same. These departments will not be able to recruit rapidly, as Army and Navy personnel, armed or unarmed, adequate machinists and mechanics.

The employees of the large automobile production manufacturing plants are, it is true, specifically and technically trained in some particular detail of automobile manufacturing and assembling; however, the repair shops of the local

automobile establishments have mechanics with general and comprehensive training and experience. In other words, these men are trained in every detail of assembling, construction, and repairing. These are the men in these local establishments who can best, most promptly, and most efficiently train repair and maintenance men for quick road service on various national defense motor-vehicle mechanized equipment. These local shops, under their present efficient management, can bring the quickest and most efficient results in general motor-vehicle mechanical and maintenance training.

This matter has been brought forcefully to my attention by Hon. Walter A. McRae, president, Florida Automobile Dealers Association, 1005 West Forsyth Street, Jacksonville, Fla., and by Mr. Ernest A. Kopp, who is associated with Mr. McRae as vice president and general manager of the Duval Motor Co., of Jacksonville, Fla. They have been Ford dealers, with probably the largest establishment in Florida, for the past 25 years. I take the liberty to enclose brief prepared by these gentlemen for your further information in the matter. I know that this suggestion of theirs, if applied by the national defense forces of this country, will bring about efficiency, promptness, and the desired results for national defense, and at the same time it will continue employment for thousands of existing automobile employees who may soon lose their positions.

Mr. Kopp will return from Chicago to Washington on Saturday, January 24, and will be glad to confer with you on the 24th or the first of the following week should you deem such conference necessary. He has no axes to grind and is offering this suggestion with the hope that it may be helpful to our armed forces and our country in general.

Awaiting your prompt advice and your suggestions, I am

Sincerely yours,

LEX GREEN, *Member of Congress.*

WASHINGTON, D. C., *January 23, 1942.*

HON. WRIGHT PATMAN,

*Chairman, Select Committee to Conduct Study and
Investigation of National Defense Program
Relating to Small Business in the United States,
House of Representatives.*

MY DEAR MR. CHAIRMAN: This will refer to your letter of January 21.

As you know, I have attended your hearing and I want to congratulate you upon the fair, intelligent, and efficient handling of this matter, particularly by yourself as chairman.

One of the suggestions that I would like to make, and offer herewith for filing in the record, is, in connection with the restriction on tires, automobiles, etc. I concur and join with those witnesses who have asked a full consideration for the present and future welfare of those in the automobile business, and in their plea for a reconsideration of some of the first orders that went into effect.

I also would like to bring to the attention of the committee what the effect of some of these orders is going to be if they are fully carried out in their present form. Many Congressmen are in the same position that I am, in that in their districts they have thousands of people who are traveling any place from 5 to 40 miles a day to work in vital national-defense industries. Many of these people come from areas in which there is no transportation of any kind except the automobile. Inasmuch as these people are highly trained in their respective vocations and cannot be immediately replaced, I think it is therefore necessary that arrangements be made that they can and do reach their respective places of employment. If the effect of these orders is going to be such that these people cannot get to work, it is self-evident that the defense of this country is going to be injured and production will be lowered. When the automobiles and the tires of these automobiles wear out, these people should be given special consideration.

Certainly immediate plans should be made and become effective, wherein the small business concerns of this country can participate in subcontracts for war production, particularly where they have the machinery already set up.

I have advised the small business concerns in my district to go to and view the exhibits set up under Mr. Howard Hutchins, in the Division of Defense Contract Distribution. These small businessmen can there see the thousands of articles and commodities that are needed in our defense program. They then can select those which they can make. After such selection, they should proceed at once to

the Contract Distribution Division and make their applications in order that many of them can continue in operation. The consolidated effort of all of these small business concerns will add materially to production in our defense program. After all, most of the business in the United States is made up of the combined small business concerns. I believe they are an asset and are now ready to go, and can immediately go into production if this matter can be explained to them.

I request that this be made part of your record.

With many thanks for your courtesy, I am,

Sincerely yours,

LELAND M. FORD, *Member of Congress.*

SAN RAFAEL, CALIF., *December 2, 1941.*

Hon. CLARENCE LEA,
Congressman from California,
Washington, D. C.

Subject: Defense Manufacturing Pool, Inc.

DEAR CONGRESSMAN LEE: Knowing that you are interested, I am writing to inform you of the plight of the small businessman and to request your help and efforts in their behalf.

At the request of the San Francisco office of the Office of Production Management we have called together the machine shops and small manufacturing plants in the counties of Marin, Sonoma, and Napa, and we have listed all the machines and other equipment that was available for the production of national defense items, and on a call for speed, we organized the group into the Defense Manufacturing Pool, Inc., as fast as it was possible to do so. This was accomplished over a month ago and since then nothing has happened.

After all this effort we get the reply from some defense quarters that they cannot deal with us since we are a pool instead of subcontractors taking subcontracts from a single prime contractor. Then again we get the reply that small shops are not wanted, that larger plants can handle all the necessary defense work. We have also been informed that the procurement offices for the Army and Navy will not deal with any pools until the legal end is taken up and passed on by the Department of Justice to see that defense pools are not in violation with the Sherman antitrust laws.

At the present time we are a group of 14 shops and small manufacturing plants with some 200 machine tools, 175 first-class mechanics, and with a net worth of approximately \$800,000. We want to serve the national defense to the best of our ability and we have the men and the equipment to do so. Representatives from our group attended the defense clinic in San Francisco and also inspected the equipment on the defense train at Sacramento and observed many items that our group can make in a satisfactory manner.

Now, if the Government needs men and machines to make equipment and supplies why can they not utilize this group of ours who are ready and available to serve?

With materials becoming apparently scarcer every week, eventually our shops must close with a resultant loss to our communities and to our men unless we can prevail upon the Office of Production Management to cooperate with us in securing some defense work.

Manufacturing pools such as ours cannot compete in price with the larger concerns on a good many items but we do believe that it would be sound policy for the Government to award a great deal of this defense business to the smaller manufacturers and pools regardless of the fact that the cost would be higher, because it would keep the men in their own communities, and prevent them from migrating to the cities where they would become a national problem and burden after the emergency is over.

Surely there is some way to eliminate red tape, simplify governmental regulations, rules and laws so that this program of distributing work may be put into operation effectively and immediately.

Your efforts in our behalf will be very deeply appreciated.

Yours very truly,

H. C. LITTLE, *President,*
DEFENSE MANUFACTURING POOL, INC.
H. S. LITTLE BURNER CO., INC.

SMALL BUSINESS IN THE UNITED STATES

MONDAY, JANUARY 26, 1942

HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE TO CONDUCT A STUDY AND
INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM IN ITS
RELATION TO SMALL BUSINESS IN THE UNITED STATES,

Washington, D. C.

The select committee met, pursuant to adjournment, in the caucus room, Old House of Representatives Office Building, at 10 a. m., Hon. Wright Patman (Texas) (chairman) presiding.

Present: Representatives Patman (Texas) (chairman), Bulwinkle (North Carolina), Kelly (Illinois), Fitzgerald (Connecticut), Halleck (Indiana), Hall (New York), and Ploeser (Missouri).

Mr. Ira Bird Kirkland, Jr., counsel for the committee.

The CHAIRMAN. The committee will come to order.

Mr. Lipsett, come around, please, sir. Give your name and position and address to the reporter, Mr. Lipsett, please.

STATEMENT OF CHARLES H. LIPSETT, PUBLISHER OF THE WASTE TRADE JOURNAL, DAILY METAL REPORTER

Mr. LIPSETT. My name is Charles H. Lipsett, publisher of the Waste Trade Journal and Daily Metal Reporter, 133 West Twenty-first Street, New York.

Mr. KELLY. Mr. Chairman, may I ask a question right at that point?

The CHAIRMAN. Yes.

Mr. KELLY. Were you asked to come here to testify before this committee?

Mr. LIPSETT. I have a telegram here from Wright Patman, Congressman Patman, as a result of my communication to him that I was interested in this hearing, and could probably present considerable information and enlightenment on the scrap situation.

The CHAIRMAN. Let me read the two telegrams, if you don't mind. That will make it clear for you, Mr. Kelly.

The telegram which was addressed to me January 22:

Can present facts before your committee on alleged hoarding and profiteering in scrap iron. Predicted shortages early last year and made recommendations to the Office of Production Management to cope with situation. Can enlighten your committee on actual situation. Await your call.

Then, in reply to that, I stated if he would be here this morning that we would give him a hearing, and Mr. Lipsett is here.

We have other witnesses—Mr. Lipsett, are you just a little bit hard of hearing?

Mr. LIPSETT. What is that?

The CHAIRMAN. Are you just a little bit hard of hearing?

Mr. LIPSETT. Just a trifle.

The CHAIRMAN. We have other witnesses this morning. How long do you think it will take you?

Mr. LIPSETT. Oh, yes. I have this memorandum. It would not take more than 10 or 15 minutes.

The CHAIRMAN. Have you prepared a statement for the committee?

Mr. LIPSETT. Yes.

The CHAIRMAN. Do you have extra copies?

Mr. LIPSETT. There are several copies.

The CHAIRMAN. Do you have extra copies here?

Mr. LIPSETT. Yes.

The CHAIRMAN. Let me have the extra copies, if you do not mind.

Mr. LIPSETT. Shall I read it, Mr. Chairman?

The CHAIRMAN. Yes. Go ahead and read it. You have a statement which will take you 30 minutes to read.

Mr. LIPSETT. Oh, no; I read pretty fast.

The CHAIRMAN. All right.

Mr. LIPSETT. I welcome this opportunity to appear before the committee because I am just as much interested in finding out whether there is any hoarding in scrap iron as is the committee itself. If there are any hoarders in scrap iron, the industry should be rid of them and if this committee will bring to light such hoarders it will have accomplished not only a worth-while task but will have been of benefit to the entire scrap iron and steel industry.

There is no question but that there is a great shortage of scrap iron throughout the United States, and it is an established fact that some steel mills have been compelled to blow out open hearth furnace as a result of this shortage. At the moment the shortage is more acute than it has been for more than a year. It is to be hoped that the investigation by this committee will throw light as to the definite reasons for this shortage and place the blame where it belongs.

As the publisher for more than 35 years of the Waste Trade Journal, and the Daily Metal Reporter which cover in detail such commodities as steel, metals, and scrap, I am thoroughly familiar with the problems of the scrap iron and other branches of the waste material industry. In my humble judgment the present scarcity of scrap iron is due largely to the wrong approach to that industry by the O. P. M. and the O. P. A., and to a lack of understanding of the importance of a coordinated national collection drive, and a failure to appreciate its value.

Just about a year ago, realizing as I did then that the country was going to be faced with a shortage of scrap iron, scrap metals, waste paper, scrap rubber, and so forth, I suggested to defense officials that a national collection drive be undertaken to stimulate the collection of these waste materials not only from industrial plants but from the homes, the factories, stores, garages, the farms, and the automobile graveyards. I felt convinced that such a collection drive would bring out substantial quantities of materials which would ultimately be needed in the defense program.

In March 1941 I forwarded plans for such a collection program to R. E. McConnell who was then chief of the Conservation Unit of the O. P. M., but nothing was done. In order to get some action before it was too late I enlisted the aid of Edward R. Stettinius, Jr., who was then in charge of Priorities Division of the O. P. M. On May 8 Mr. Stettinius advised me that he had turned over my collection plan to Mr. McConnell. As a result of constant prodding I was advised on May 19, by R. C. Allen, the consultant on ferrous minerals and alloys to the O. P. M., that an iron committee had been formed. Mr. Allen wrote me as follows:

The first meeting of the newly formed section on scrap iron and scrap steel will be held here on Tuesday, May 27, at 10 a. m. I would be very glad if you come. If you do, I shall try to arrange an opportunity for you to state to the section what are your criticisms of the existing situation and what are your recommendations for its improvement.

I appeared before the committee and presented my collection plan. I seem to have convinced the O. P. M. and O. P. A. officials who were then present of its practicability and necessity, but the scrap iron and steel committee apparently saw differently.

That the O. P. A. was in favor of a national collection campaign is evidenced by a communication that I received from Mr. C. A. Bishop, Special Assistant to Administrator Leon Henderson, dated June 21, in which he said:

We can understand, to some degree, your impatience over progress which has been made in connection with the plan you submitted. However, as you well know, this Division cooperated in bringing about the consideration of your plan from the very start.

At a time when efforts should have been made to bring out scrap by a coordinated collection drive, there was bickering among committees, lack of understanding, opposition because of selfish interests, with the result that nothing was accomplished.

Mr. HALLECK. Right there, who was the bickering between down there; was it between this—

Mr. LIPSETT. A question of authority.

Mr. HALLECK. Between the iron section and the reclamation section?

Mr. LIPSETT. The question of authority was a very important factor between the O. P. A. and O. P. M. during the first—during the last year especially.

Mr. HALLECK. Now, what two committees were each claiming to have jurisdiction of this matter?

Mr. LIPSETT. The O. P. A., of course, came along with their ceiling prices, and in conferring with them on their ceiling prices I pointed out to them that some ceiling prices may necessitate coordinated effort on collections.

Mr. HALLECK. But more particularly now, you refer to the bickering among committees, and some of that has been called to my attention. Now, I just wonder what committees you refer to.

Mr. LIPSETT. Well, the committees I would assume, would be trade committees. It is hard for me to go back and remember every word of disagreement which exists, except everybody had a different opinion on it. There was a lack of understanding as to its importance, even amongst the waste-material men.

Mr. HALLECK. But here, you refer to the newly formed section on scrap iron and scrap steel.

Mr. LIPSETT. Yes.

Mr. HALLECK. And then down below here, you refer to the reclamation division, I think it is, or the reclamation unit of the Conservation Section. Now, were those the two?

Mr. LIPSETT. As I understand it, at the meeting of the iron and steel committee, the first meeting of that iron and steel committee, the question—I appeared on invitation of Mr. Allen. I presented the thought to them, or program, or recommendation, that what will bring out millions of tons of scrap was the immediate coordinated effort on the part of governmental agencies with the industry to install a collection program. I understand that committee did a lot of bickering as to whether my recommendation was in line, whether they should be interested in it, and several other factors.

Mr. HALLECK. Well, you can proceed with your statement. I did not mean to take too much time.

Mr. LIPSETT. I took the matter up with Mr. William S. Knudsen, Director General of the O. P. M., and on July 1 he wrote me as follows:

I understand from Mr. R. E. McConnell, of the Conservation Section, that the Reclamation Unit is at the present time working with this industry, and that as soon as a proper committee can be appointed, a plan will be completed for the acceleration of all types of waste materials into the markets. The plan, which you have submitted, will be reviewed again at that time.

The sum and substance of all these efforts was that the situation was allowed to drift. The Scrap Iron Committee did not see fit to coordinate its efforts with other groups, because such efforts might have brought out not only scrap iron, but waste paper, scrap rubber, rags, scrap metals, and so forth. The only explanation offered for the failure to push a Nation-wide collection program was that given me by Mr. Louis J. Borinstein who at that time was affiliated with the O. P. M., and who was in charge of the Scrap Iron Committee.

I know Mr. Borinstein was there when I appeared before Mr. Allen's committee and presented the thought of a coordinated program.

On July 7 he wrote me as follows:

Our committee, as appointed by O. P. M., was directed to consider your plan and to report back. Our committee at that time included three representatives of steel mills. These men said they knew something about scrap iron and steel but nothing whatsoever about any other kind of scrap material.

Of the five dealer representatives, two said they knew only about scrap iron and steel and nothing about other grades.

Our committee, as constituted and appointed as a "Scrap Iron and Steel Committee," made its report as it did as it believed it was not competent to treat with any other grade of scrap.

The summer months of 1941 were the logical ones in which to have intensified a collection program so as to avoid a situation such as has developed this winter and which is now creating so much concern not only to the steel mills but to the Government as well, because scrap iron and other waste materials are essential to our war industry. They are a vital raw material needed to replace virgin materials of which there is also an extreme shortage.

The present shortage which has given rise to the many charges of hoarding became manifest in the middle of August. On August 11

I wrote to Mr. R. C. McConnell, Chief of the Conservation Unit of O. P. M., pointing out to him that—

We are already confronted with a serious scarcity of raw materials, and it will be a pity if there be any further delays. If any action is to be taken, it should be taken immediately.

It was not until I enlisted the aid of Price Administrator Leon Handerson that the Nation-wide collection effort really got under way late in the fall. The daily and the trade press began to take up the cry for a Nation-wide collection drive. The Wall Street Journal, in its issue of December 6, pointed out that the real solution to the scarcity depended upon timely governmental help which—

should take the form of a national appeal to householders, farmers, everyone, to join in a Government-led and directed campaign to salvage scrap from every backyard and corner lot. Defense officials applaud the idea, but have begun no campaign. Now one is promised. But, say the steel makers, it may be too late to be completely effective.

It was only on January 13, 1942, that Lessing J. Rosenwald, the present chief of the Bureau of Industrial Conservation, made public the fact that 16 States and the District of Columbia had completed organizations of Salvage for Victory committees under the sponsorship of the Bureau of Industrial Conservation.

I have traced at great length the development of the national collection drive which is now in progress because I feel fully convinced that the present shortage either would never have developed or would not have become as serious as it is, had those in power had sufficient foresight to realize what was in store for us, and had they taken the proper steps early last year.

There are still millions of tons of scrap iron lying about idle on farms, at plants, and stores, in shops, in garages, at auto-wrecking plants, and in the 20,000,000 homes throughout the United States. It is this scrap which is now needed to alleviate the shortage. It is this scrap which will come out as the result of the intensified collection drive on a Nation-wide scale that is now beginning to make some headway.

Of the 16 States that have been organized for an intensive collection drive, there are only 2 where the work of the collection committee has reached a stage that scrap and waste materials are beginning to flow more freely. Reports reaching me from these 2 centers show that there has been an improvement in the collection of scrap and waste materials of 20 percent to 30 percent in the past few weeks, and this improvement has been felt from the collector right up to and including the large dealers who ship to the steel mills.

I am inclined to believe that the rest of the Nation will be organized by the early part of the coming summer and from then on there should be a material increase in the flow of scrap and waste materials into the hands of consumers. The unfortunate thing is that so much valuable time has been lost and which cannot be recaptured.

I am of the opinion that the farms can be made to yield between 2,000,000 and 3,000,000 tons of scrap iron through a Nation-wide effort. In addition, millions of tons will be garnered from industrial plants, homes, stores, auto graveyards, and so forth, and in addition there will be brought out thousands of tons of scrap rubber,

waste paper, and scrap metals which are also needed at the present time.

The CHAIRMAN. Just a moment. It occurs to me that you have indicated that there is very little scrap available in the country. The few millions of tons that you suggest here as possibly being available represents such a small percentage of what is needed annually in this country.

Mr. LIPSETT. I understand that, Congressman. You see, there is a larger percentage of scrap that flows on its way ordinarily from the industrial plants and the railroads. I might say that the railroads probably furnish us with about 30 percent of our scrap iron; the industrial plants probably furnish us 30 percent more.

These other sources are the hidden sources, the farms, the auto graveyards, the home, the general collection program. They probably furnish also about 25 or 30 percent of the scrap, and it is that scrap that is hidden or that is remote or that is hard to get at, or that has been overlooked.

Mr. HALLECK. Might I intervene, Mr. Chairman.

The CHAIRMAN. Yes. Go ahead.

Mr. HALLECK. As a matter of fact, isn't it true that this country was exporting scrap right up through 19—well I won't name the year—until very recently?

Mr. LIPSETT. Correct.

Mr. HALLECK. In tremendous quantities—and exporting that scrap when the steel manufacturers of the country were pointing out the danger inherent in developing a scarcity of scrap material, scrap iron, and steel that we now have?

The CHAIRMAN. Wasn't it better, though, to export that scrap, which I understand is very small compared to the large amount of scrap, than to be denied our source of rubber; in other words, our entire rubber reserve has been accumulated during this period of time, while we were permitting Japan to have some scrap?

Mr. LIPSETT. Well, I can explain that, gentlemen, in this way: First, there is the ordinary trade relations that we have with foreign countries where, in order to keep harmony, and I think we have got to go back as to the reasons that Germany and Japan give as to why they are going to war. They are going to war because the raw materials of the world is closed up to them, so, as I say, there are sort of inter-trade relations we are faced with, probably exporting scrap steel at the same time new steel was going to those same countries in various forms, and other metals, copper was going to those same countries.

Now, I will also give the other side of it.

The CHAIRMAN. Well, you do not mean to say that you can cut off other countries and then continue to get everything you want from them?

Mr. LIPSETT. No; I say you are right on that, but I will give you another side to it.

During the last 2 years, when scrap was at a pretty high value, or fair value, and there was tenseness on the war situation, we should have been—probably been—a little bit more cautious in realizing that that scrap is going to be needed here, but like a great many other things in this war picture, we just were careless of many things.

The CHAIRMAN. Would you say it was careless? You see, rubber was more important to us than scrap iron.

Mr. LIPSETT. That is right.

The CHAIRMAN. Wasn't it far better to let them have the small amount of scrap that we did, and import a million tons of rubber in 1 year?

Mr. LIPSETT. That is right. I say that was one of the reasons the change of this date—I go back prior to this, 2 years—because the exports from the United States, not only to Japan, but Germany, Italy, has been going on pretty effectively, for 10 years.

Prior to that time—if you gentlemen are interested—the reason scrap was exported was because the price on our southern coast lines, on the Pacific coast and on the Gulf coast down to Florida, Texas, Louisiana, was so low that it did not pay them to ship that stuff up to the north, to the northern steel mills.

It paid them to accept export orders; otherwise that stuff would have been laying there rotting away.

The CHAIRMAN. In other words, the freight rates compelled them from an economic standpoint to send it to foreign countries and sell it there?

Mr. LIPSETT. That is right.

The CHAIRMAN. Rather than sell it in our own country?

Mr. LIPSETT. To give an illustration of it, the freight rate of scrap from Massachusetts—the nearest large market is Bethlehem. It is somewhere in the neighborhood of about close to \$4 a ton. They were able to export the scrap from Boston, put it on lighters, have the lighters put it on a steamer, have that steamer go to Danzig, Germany, unload it on lighters, take it up the canal to the steel mills for \$3 a ton.

The CHAIRMAN. So every incentive, according to the situation which we have set up here ourselves in freight rates, was in the interest of the man selling the scrap to export rather than sell it domestically?

Mr. LIPSETT. That is right.

The CHAIRMAN. Go ahead.

Mr. LIPSETT. It is my firm conviction that the automobile graveyards can be made to yield from 3,000,000 to 4,000,000 tons of scrap iron this year if the owners of these graveyards can be compelled to dismantle cars that are older than 5 years. Mr. Rosenwald's recent action, I think, will assure the wrecking of such cars and the disposal of the scrap.

This committee is vitally interested in the small businessman. There are about 200,000 peddlers and collectors in the waste-material industry who constitute small businessmen. A great many of them have been driven out of the scrap-iron and waste business because they find it unprofitable to carry on their work in spite of the public opinion of big profits in buying scrap.

The Iron Age, in its issue of January 1, 1942, commenting on this situation, said:

Meanwhile scrap collecting personnel in those areas has been slowly disintegrating. The attraction of wages paid by war industries and the general uncertainty of the scrap business has seriously depleted the ranks of collectors, and dealers' yards.

The Wall Street Journal, in its issue of January 5, commenting on the same situation, points out that—

The complaint in many sections of the country is that the men who previously had gathered scrap from homes, farms, etc., were no longer interested in this work because of the lower prices they were receiving on their collections. These men are said to have secured employment in defense plants and there were no others to take their places in this work.

Without the activity of the 200,000 small collectors and peddlars, there cannot and will not be sufficient scrap iron or other waste materials collected with which to supply the needs of steel mills, paper mills, copper refiners, rubber reclaimers, woolen mills, and so on down the list.

This committee will render a distinct public service if it not only unmasks the hoarders but also makes the entire country scrap-conscious so that the housewife, the storekeeper, the garageman, and the farmer, will bring out every bit of scrap and waste that may be lying about their premises and make this material available to the industries that need them.

I am inclined to believe that there has been considerable confusion in the use of the terms "hoarder." I believe that the term has been used when the proper word should have been "scarcity." At the present time there is a serious scarcity of copper, lead, zinc, tin, pig iron, crude rubber, aluminum, semifinished and finished steel products, but there have been no accusations of hoarding against the industries that produce these commodities.

Similarly, there is a serious shortage of scrap iron, and the shortage, in my opinion, is not the result of hoarding by the industry as such. Among 200,000 peddlars and collectors and among 20,000 dealers there probably are some who are not doing the right thing either through stupidity, ignorance, avarice, or lack of patriotism. But the vast majority of collectors and dealers in my opinion are patriotic and are doing all they can to bring out scrap and waste materials.

Trade papers that are in close touch with the scrap-iron industry, whose reporters visit scrap-iron yards daily, find no hoarding of scrap. The magazine Steel, which is a reputable publication, in its issue of January 5, 1942, in discussing the present shortage of scrap iron, explains the situation as follows:

Outlook for 1942 seems serious, inasmuch as supply from other than industrial and railroad sources has been well combed and will yield less tonnage than during 1941. The fact seems to be that intensified steel production has outrun scrap supply and the country does not yield sufficient to supply the need.

The Daily Metal Trade, in its issue of January 23, 1942, reporting from Cincinnati, says:

Tonnage passing through hands of dealers and brokers is smaller than in December. The market is about ready to discount the effects of the holidays and subzero weather, and ascribe the smaller collections to exhaustion of some scrap sources, temporarily at least.

The Wall Street Journal, in its issue of January 9, 1942, says:

It is always difficult to gather scrap during the severe winter months. For that reason the normal procedure in the past was to collect on a large scale before the cold weather set in.

The practice of accumulating a scrap inventory was not possible last year. Collections were not sufficient to take care of the requirements for the continued

high rate of steel ingot production. More scrap was consumed than was being received at the furnaces, and steel makers had to dig into their stock piles.

The New York Times, in its issue of January 11, reporting from Chicago, says:

Cold weather has reduced the scrap industry's production. Drastic reduction of motorcar output has discouraged scrapping of older cars and has reduced the amount of scrap from automobile plants during the transition from automobile to arms production.

The Wall Street Journal, in its issue of January 5, discussing the present scrap shortage, says:

That the Office of Production Management realizes the seriousness of the situation is indicated by preliminary steps for a campaign of collections. The criticism among steel men is that such action should have been taken months ago when the gathering would not have been interfered with by unfavorable winter weather. It is possible that heavy snows will interrupt any campaign now under way.

The cry of "hoarding" was heard way back in July. As the publisher of industrial trade papers I was vitally interested as to whether there was any justification for such accusations so that the guilty parties might be exposed and punished. I made my own personal survey through our staff that visits practically every scrap-iron yard throughout the United States. That survey was made in July and the early part of August. It showed that the 525 dealers investigated by my staff carried a total of 170,956 tons on August 1, 1941, as compared with 369,346 tons on December 31, 1940, showing reduction in a period of 7 months of about 50 percent.

This personal canvass dovetails closely with that which is now made periodically by the Bureau of Mines of the United States Department of the Interior. The Bureau, in its report number 7, shows that at the end of September 1940 the consumers carried a stock of purchase and home scrap totaling 6,993,000 tons, and at the end of September 1941 that stock had been reduced to 5,716,000 tons, a decrease of only 18 percent.

The comparative figures are contained in report number 13 that was issued by the Bureau on January 6, 1942. The same two reports give the dealers' stock of scrap iron as of the end of September 1940, as 1,601,064 tons, and at the end of September 1941, 799,163 tons, a decrease of 50 percent.

My recent survey made by the reporting staff of the Waste Trade Journal shows that since September 1941, up to about a week ago, there has been a further reduction in stocks that are carried by the majority of scrap iron yards. You must bear in mind that a certain amount of scrap must at all time be in the large yards, because such scrap constitutes the working stock of the yards. The scrap that reaches the yards is a mixture of all kinds of materials, that have to be sorted out according to certain grades to meet the specifications of steel mills and foundries.

Not only is sorting necessary, but a great deal of the material must be prepared by breaking it up or cutting it to appropriate sizes for use by the consumers. A scrap pile in a yard does not therefore necessarily mean hoarding. In most instances it means that it is being worked on. I am convinced that there is no hoarding of prepared scrap by the industry as a whole, and that where there is

hoarding it constitutes isolated cases and these violations should be dealt with.

The trouble has been that there have been many accusations of hoarding, some of which have been turned over to the Department of Justice, but to the best of my knowledge there have been no prosecutions, and without prosecutions there can be no conviction.

The result is similar to having a man indicted and never going to trial, which leaves the indictment hanging over him without giving him an opportunity of proving his innocence. Where you have 200,000 businessmen in an industry and they are mostly peddlers and collectors, and where you have 20,000 dealers, there are bound to be some who will evade the law.

They should be ferreted out and be driven out of the industry, but that is no reason for maligning the entire industry.

The steel industries consumed 69,600,000 tons of scrap iron in 1941, and of that total the scrap-iron industry supplied approximately 27,600,000 tons. That was a new high record in the history of the industry. For 1942 the scrap-iron industry is expected to furnish 32,000,000 tons of scrap and that tonnage will only be possible if the national collection campaign which is now under way receives the aid and the encouragement of every Government agency, both Federal and State. I believe that when the new price-control bill is enacted into law it will have teeth that will prevent hoarding.

All scrap-iron dealers are now compelled to file monthly inventory reports with what used to be the O. P. M. and is now the War Production Board. Falsification of such reports is punishable under law. Let the guilty ones be punished, but let's not throw mud at an entire industry and discourage those who are in it at a time when we need every dealer, collector, and peddler to bring out more scrap.

We want every one of these businessmen, and there are 200,000 of them, to participate in their State or local collection campaign that are now under way and which are being stimulated to greater activity by Lessing Rosenwald, Chief of the Bureau of Industrial Conservation. The daily work of these collectors and peddlers, what with the accusations of profiteering, hoarding, direct dealing, civic collection drives, and so forth, is not only becoming more difficult, but more unprofitable. Without them there cannot be an adequate supply of scrap iron and other waste materials that are needed for our war efforts. We must keep them on the job unless we wish to run the risk of making the situation this year infinitely worse than it was in 1941.

The CHAIRMAN. Are there any questions, Major?

Mr. BULWINKLE. Not now.

The CHAIRMAN. Mr. Halleck?

Mr. HALLECK. I see that Mr. Edward C. Barringer is the executive secretary of this Institute of Scrap Iron and Steel. Is that the organization of the scrap industry?

Mr. LIPSETT. Yes, sir; it is.

Mr. HALLECK. Well, do you suppose that Mr. Barringer could give us any idea of what the industry has done, and can do?

Mr. LIPSETT. I believe Mr. Barringer could be a very valuable witness.

Mr. HALLECK. That is all.

The CHAIRMAN. Mr. Kelly.

Mr. KELLY. Not at this time, Mr. Chairman.

The CHAIRMAN. Mr. Fitzgerald.

Mr. FITZGERALD. I would like to ask one question.

It was testified here last week that \$20 a ton was a handsome price, that was testified to by the Office of Price Administration, that \$20 a ton was a handsome price.

Mr. LIPSETT. Yes.

Mr. FITZGERALD. What is your opinion of that?

Mr. LIPSETT. Well, now, there is a diversified opinion on that. I believe that \$20 for scrap steel delivered Pittsburgh, in the industrial sections, say east of the Mississippi River, is a fairly good price.

The question arises, of course, of remote scrap and the O. P. A. had to recognize that, and they made an f. o. b. price in some of the southern and western States, I believe it was \$15 a ton, so that any mill from Pittsburgh who wants to pay \$10 or \$15 a ton freight, can bring that scrap out and pay f. o. b. \$15 there.

You have the same situation on top of it. There are two views on this thing, conflicting views, and I do not want to go on record that I am approving of either one. You have 12-cent price on copper.

Mr. FITZGERALD. Now, we are talking about steel. Let us talk about steel and the scrap.

Mr. LIPSETT. All right. I have the same illustration. I am giving an illustration where there may be scrap iron which may cost \$40 to bring out. Are we willing to pay \$40 a ton for that particular scrap, and to get it out, and get it to the steel mills? There are such things as wrecks, ruined mines, where you have got to bring it in 20 miles, where the cost of transportation is \$15 a ton.

Mr. FITZGERALD. Don't you think that one reason why some scrap is not being brought out, is the difference between \$20 a ton?

Mr. LIPSETT. That particular percentage—that particular percentage is not being brought out. How big the percentage is is something that is to be considered—it probably is a very important percentage.

Again, I illustrate the same thing in metals. The Government recognized that situation in metals. They know that there are high cost mines where they cannot produce copper at 12 cents, so they said, all right, to these high-cost mines we will pay 17 cents. We want that copper. That is 5 cents over the fixed price to the majority of production now in scrap and waste materials.

I am not only presenting the problems of scrap iron, you get the same theory on scrap rubber, and that is going to be scarcer than hell this year. You have the same problem on waste paper and other scrap and waste materials that are today equal to virgin material in their need, in their use.

Now, it is a collectible article. It is a question who can afford to go to Tom Jones' farm 30 miles away and put on a lot of junk there, a few hundred pounds of waste paper, a few hundred pounds of iron, 20 or 30 pounds of metal, 50 or 100 pounds of rags, a couple of old tires—who can afford to go there, pay money for it, and bring it out. That is the serious thing. That is what we call remote scrap.

The CHAIRMAN. May I suggest that the point that you are bringing out is very important in this whole program? In the hearings on the price-control bill it developed that copper can be produced and a profit made by most of the companies at 12 cents per pound.

Mr. LIPSETT. Yes, sir.

The CHAIRMAN. There is, however, a small percentage, we will say 10 percent, that will have to have 18 and 20 and 30, and maybe 40 cents a pound, but the point is they expect to get that copper regardless of cost, because it is a strategic and critical material.

Now, it is better to give a higher price for 10 percent than to risk the chances of great inflation by increasing the 90 percent up to that high price, so that is the whole theory of price control.

Mr. LIPSETT. I understand that.

The CHAIRMAN. The whole theory of price control is to fix a price that is reasonable for a majority, and then have the power to bring the other in by giving a higher price.

Mr. LIPSETT. I understand that, Mr. Chairman, because I have sat in on most of those price hearings, and we were also interested in copper.

The CHAIRMAN. Any other questions, Mr. Fitzgerald?

Mr. LIPSETT. I understand that thoroughly, and the same situation exists on waste paper, on scrap iron, on old rubber, on woolen rugs, on any other scrap commodity. It is a raw material, necessary to make the material for the war needs.

Now, on any one of those, the price set-up of the O. P. A. may be perfectly logical and sensible and workable on a certain percentage of that material, like say 90 percent, but it is that 10 percent that we need in remote areas that has got us worried. How can we bring that out?

The CHAIRMAN. Well, it should not worry us. We should just pay more.

Now, the buy and sell provision in the price-control bill that will be up today, and was agreed to in conference, is a provision for the sole and only purpose of taking care of the very situation that you are outlining, and when that bill becomes a law then the Price Administrator may use public funds to pay more money for remote materials.

Mr. LIPSETT. Well, I think in my memorandum I pointed out the fact that the price control may help to remedy the situation.

The CHAIRMAN. It will help, that is the object of the buy-and-sell provision.

Mr. LIPSETT. It is a problem. During the last war I was on the War Industry Board in charge of several scrap committees, secondary metal committees. Of course, the price was so high then this problem did not come up. There was not that serious scarcity which exists now. We had a price on copper that was 37 cents a pound.

The CHAIRMAN. Are there any questions, Mr. Fitzgerald?

Mr. FITZGERALD. I would like to ask him, following along his thought there—do you believe that all the scrap now that is available, but the remote scrap, is collected?

Mr. LIPSETT. Yes; because it is very competitive. These men are in business. If they do not go out and buy up a little stuff every day—the small peddler buys little stuff, the large dealer will buy a hundred tons or fifty tons—he is not doing business. He is there to do business. It is collected, but I believe, if you go into this further, I say you may find isolated cases where some dealer is holding unnecessarily quantities of scrap iron that probably should be pushed on the market, to reach the mills.

Well, that is a job for the O. P. M. and the O. P. A. and they can do it. They can control that situation. They have regulations there to see that that material keeps moving along on a reasonable basis, but I say, that is the isolated case; the rank and file scrap iron yards are pretty well depleted.

The CHAIRMAN. But they do not have the power to pay that higher price.

Mr. LIPSETT. No; they have not got the power to pay the higher price.

The CHAIRMAN. That is the reason that that particular provision of the price control bill is absolutely necessary.

Mr. LIPSETT. Now, may I get one more point on the record. I noticed in your evidence on Friday, there was a lot of confusion on—in the early stages of the price violations, I refer to the O. P. A.—on the fact that when a price was violated, first they just said a dealer in Chicago has been asked to refund his overcharges.

I told them that that reflected against every dealer in Chicago. I said, we demand names. I said, "You are not accomplishing anything except throwing a stone at 500 dealers in Chicago. Let us know whether it is John Smith in Chicago or Tom Jones." My recommendation apparently has influenced them to change it. I go a step further. I made that recommendation to them. Why pillorize a scrap man. He is told by the steel men to go out and pay the price. They have had steel mill men come down to the O. P. A. to defend the scrap man, who said, "I told them to pay that price."

But the steel mill man was not mentioned, was not pillorized, but the scrap man is pillorized. We had a situation where two dealers from Kansas City—they brought with them the president of the Sheffield Steel Co., who happened to be down, I believe that time—I do not want to say they brought him with them, but he happened to be here, where the question came up that the scrap iron, due to the differentials that they carried—here is the St. Louis price, here is the Kansas City price.

Well, it suddenly changed the flow of the scrap in other directions to a higher market. The Kansas City mills, the Kansas City steel mills suddenly found that the scrap that they used to get from their territory was going to St. Louis because the fellows could ship to St. Louis and get 80 cents a ton more. So they told the two or three brokers to go out and get that scrap, pay the higher price.

Those brokers paid the higher price, got them the scrap, were called on the carpet by the O. P. A., and of course they were pillorized in the newspaper, but the steel mill was not affected in any way.

Mr. KELLY. What steel mill did that?

The CHAIRMAN. The Sheffield, the Sheffield steel mill.

Mr. LIPSETT. Sheffield steel mill, the story as I get it. Now, you got the same situation and many others.

The CHAIRMAN. That doesn't sound just right to me. I mean, I am not questioning what you say, of course I am not questioning that at all, but I cannot understand why one in the Government service would condemn a scrap dealer who was compelled to pay a higher price at the insistence of the mill. Who handled that in O. P. A.?

Mr. LIPSETT. I really would not know which one in O. P. A., probably enforcement.

The CHAIRMAN. Well, since you have brought the information to us, if you can I hope you will furnish us the name.

Mr. LIPSETT. Possibly due to the fact, Congressman, that the regulations may read that the man who sells only is the one that they take under control, and that is the dealer, the seller of scrap iron, the buyer and seller of scrap iron. The steel mill does not come in that category, so they let him out of the picture.

The CHAIRMAN. It is very unusual for one connected with the Government, to pick out someone like that and condemn him, without showing the extenuating facts and circumstances.

Mr. LIPSETT. So their problem of ceiling prices could be controlled much better, or would help much better if they enforced it amongst the consumer of scrap iron and the paper mill who buys waste paper.

Mr. FITZGERALD. One more that I would like to ask him. You said about a year ago you submitted a plan for the collection of this scrap that is out.

Mr. LIPSETT. Yes.

Mr. FITZGERALD. Would you briefly tell the committee what the plan was?

Mr. LIPSETT. Well, the plan is more or less based on the present program that the Conservation Section is going under, to organize groups and committees in each State, city, to salvage markets either through State or through the conservation section in each city, locality, community, to coordinate the interest of every dealer, collector, civic groups, charity organizations, with the publicity that can go with it, radio broadcasting, newspaper publicity, as to the importance of scrap, urging everyone to bring it out. They are following that plan now.

Mr. FITZGERALD. Let me go a little bit further. I can see where small paper, or small scrap, can be handled by hand, but what is your plan to go in and get the big scrap that is in deserted mills, sawmills, and that is too big to handle by hand?

Mr. LIPSETT. That is a question of price. That is a question of price.

Mr. FITZGERALD. Civilians cannot do that, can they?

Mr. LIPSETT. No.

Mr. FITZGERALD. That would have to be done by the industry itself?

Mr. LIPSETT. That is right.

Mr. FITZGERALD. It requires equipment, and it requires trained men.

Mr. LIPSETT. That is right.

Mr. FITZGERALD. So you are offering no solution to that outside of maybe higher price?

Mr. LIPSETT. Maybe a higher price.

Mr. FITZGERALD. To get it out, and then when you get most of the scrap, the heavy scrap, it is not the small scrap, it is the scrap, as I said before, which would take acetylene cutters and derricks and equipment to get it out.

Mr. LIPSETT. The best explanation I can make of that is that there are thousands of wrecks, ruins, old factories, which should be dismantled, which have boilers, engines, old machinery; now, the salvage price of that based on the present price of scrap may be \$5,000 to the scrap man. The fellow won't sell it, due to the fact that he thinks the price is too low. If the scrap man can offer \$6,000, \$7,000, or \$8,000 for that, it may be sold and therefore bring the scrap on the market, but there is

where your ceiling price on scrap interferes, as that is all the scrap is worth.

The CHAIRMAN. Are there any other questions, gentlemen?

Mr. BULWINKLE. I want to know something about how this business is conducted. For instance, what is the place of the brokers in it?

Mr. LIPSETT. Well, all right. I will have to start at the foundation in the industry.

Mr. BULWINKLE. That is what I want you to give me.

Mr. LIPSETT. There are three sources of scrap. One is the railroads—that is, three major sources—one is the industrial plants, and the other is the collecting from homes, farms, stores, and so forth. The collecting end is hundreds of thousands of peddlers and collectors and charity organizations who also step into the picture and pick up waste paper and rags, and so forth. The collector sells his material to what we call a retail junk shop, a retail dealer who probably buys from 10 or 20 or 50 collectors. He buys everything—waste paper, iron, metal, rags, and so forth. He assorts them or separates them. Now, he sells his metal to what we call wholesale metal dealers.

Mr. BULWINKLE. Do you mean the junk shop?

Mr. LIPSETT. To the wholesale metal dealer; he sells his iron to a wholesale iron dealer, and his waste paper to a wholesale dealer, and so forth.

Now, these wholesalers, some of them are called a large dealer to the point of where they may do business direct with the mill; they may sell in carload lots direct to the mill, or they may also sell to what we call a broker. In scrap iron there is a broker element.

The steel mill prefers to take one man and give him an order for 10,000 tons of scrap steel to be delivered in say 30 to 60 days instead of going around the market, buying it from a hundred others, and creating a decision amongst the hundred to raise the price on him. He has found it sound and economic to give his business to one broker who knows the market, and so forth. That man buys from a hundred other wholesale scrap iron dealers. That broker buys from the railroads to fill that mill order. That broker buys from large industrial plants to fill that order. Some industrial plants produce scrap into thousands of tons. Now, that is the proper flow of the material.

Mr. BULWINKLE. Now, then, the collector sells to the junk shop. What is the profit that the junk shop makes on it, and how?

Mr. LIPSETT. You have seen the type of person that engages in collecting. They just barely make a living out of it. You will find more collectors when times are bad and they cannot get jobs elsewhere. When times are good and jobs are available you find very few collectors, because the thing does not pay most of them, except to give them a nigger living. The retail shop probably makes a good living out of it, like the small grocery store or the small retail business would.

Mr. BULWINKLE. Do they sort this material?

Mr. LIPSETT. They sort this material and sell it to wholesale dealers, and then the wholesale dealer, of course, his profits are larger. He buys from large industrial plants. He does wrecking. His profits are

more extensive. He operates big yards, big presses, hydraulic presses, electric presses, and so forth, acetylene torches. He will bid on a wrecking job, and he either sells direct to the mill or in turn sells direct to the broker. Some brokers operate a yard practically, they operate as both wholesaler and broker. In other words, they prepare their own scrap and sell it to the mill and buy from other dealers to fill a big order from a steel mill or foundry, whatever the case may be.

Mr. BULWINKLE. What is the usual charge the brokers make on it?

Mr. LIPSETT. Fifty cents a ton.

Mr. BULWINKLE. What is the usual charge the wholesalers make on it?

Mr. LIPSETT. There is where it is a question. He has to gamble a great deal. He will buy a wrecking job and pay a certain sum for it, and either he is going to make some money on it or lose some money on it. There is an element of risk there, an element of gamble to the trade at large. He will buy iron and figure on it costing him about \$3 to \$4 a ton, and assort, prepare and assort, and so forth. In getting it to the market he has got to figure whatever cost there is in preparing the scrap, and add onto it whatever profit he thinks he is entitled to.

Mr. BULWINKLE. Well, have you heard of many instances in which the wholesalers refused to sell to the broker for the price that he offered?

Mr. LIPSETT. Oh, yes.

Mr. BULWINKLE. Many of them?

Mr. LIPSETT. No; not many. There are few amongst the lot. There are 20,000 wholesalers. I have got to admit that there are 50, 100, or some percentage that are unpatriotic. I mean you will find them in any line of business.

Mr. BULWINKLE. Now, then, how many junk shops are retailers?

Mr. LIPSETT. How many are what?

Mr. BULWINKLE. Junk retailers, we will call them.

Mr. LIPSETT. Junk shops, at least ten to fifteen thousand junk shops, about five to ten thousand large wholesale establishments, and the question of ceiling prices—you will find in today's paper the criticism of the wholesale steel scrap jobber who says the present ceiling of prices is not high enough for him to make a profit. I mean there is no crime in saying the price is low, or the price should be higher. It is a matter of opinion in approaching this collection program, men that I figured were authorities in the trade, and the confusion was tremendous as it has been in other things relating to this war. Leaders in the industry, too. You cannot collect a pound. The price will turn it down, and others who said, "Well, nothing will help unless the Government steps in and coordinates this collection program and brings in the dormant scrap." I mean, there are so many diversified opinions on it.

The CHAIRMAN. Are there any other questions, gentlemen?

Thank you, very kindly.

Mr. LIPSETT. May I correct one point I wanted to make before, and I will be through.

The CHAIRMAN. All right.

Mr. LIPSETT. That the Department of Justice investigation, that the O. P. A. presented 15 dealers but I wrote immediately to Gins-

berg, Mr. Ginsberg, the attorney for Henderson, presented to him the picture of what he called combination in restraint of trade as it exists among the scrap trade. There have not been any recommendations from the Department of Justice, and I would like to present to you that particular picture as to the fact that these large brokers seem to be a combination in restraint of trade due to the fact that they lend money to the smaller man to buy scrap on. That is absolutely correct. But that is not combination in restraint of trade. It is reversed on merchandise. The manufacturer sells to the wholesaler and gives him 60 days' credit, otherwise a wholesaler could not do business. The wholesaler in his business sells to the retailer and offers to give him credit, otherwise he could not do business.

Now, in scrap you have to pay cash for what you buy. Therefore, the peddler comes to the little retail shop and says, "Mr. Jones, I am going out today to buy scrap. I need \$5." O. K. He knows him. "Here is \$5." The retailer goes to the wholesaler and says, "Here, Jim, I need \$500 this week to buy my material." He says "O. K.," and gives it to him; on the same theory the big broker will lend several thousand dollars to the wholesale dealers.

Mr. PLOESER. Mr. Lipsett, there is one question I want to ask. Do you feel that if there were a freedom of price in the scrap industry the scrap would come in much more rapidly?

Mr. LIPSETT. Freedom of price?

Mr. PLOESER. Yes; I mean, let it take its normal level, instead of trying to fix it.

Mr. LIPSETT. I will say you can get 90 percent of scrap, not only in iron but in metal, waste paper, and rubber on the present ceiling of prices, but I will also say that there is a percentage, say 10 or 15 percent possibly, that must be studied, that must be given some consideration, on the same principle again that they have given that high price of copper consideration. It is that 10 or 15 percent of scrap that is missing, that must be brought out, and that probably requires some sort of approach to it that will involve a higher price, or a subsidy, or whatever you want to call it, to bring in that 10 or 15 percent.

The CHAIRMAN. Mr. Lipsett, we have some other witnesses here. We are grateful to you for the fine information you have given the committee. Personally, I appreciate it very much, and I know that the other members of the committee appreciate it. Thank you very much. You will be sent a copy of the printed hearing in the morning. They will be printed tonight.

Mr. LIPSETT. Thank you.

The CHAIRMAN. And now, we have two other witnesses, Mr. Carter and Mr. Vollmar. Mr. Carter and Mr. Vollmar, just take those seats there.

Are there any other witnesses who are supposed to be here this morning?

Mr. Vollmar is a small manufacturer from Sioux City, Iowa, and Mr. Carter represents the National Association of Manufacturers. He is from Boston, and he is also on the Federal Reserve Advisory Committee regarding credit, and I think he can give us some interesting information.

Mr. Carter, will you give your name and your position and your address, please.

**STATEMENT OF WINTHROP L. CARTER, CHAIRMAN OF THE
CIVILIAN INDUSTRIES COMMITTEE OF THE NATIONAL ASSO-
CIATION OF MANUFACTURERS, NASHUA, N. H.**

Mr. CARTER. My name is Winthrop L. Carter, chairman of the Civilian Industries Committee of the National Association of Manufacturers. My address is Nashua, N. H.

The President has called on American industry to produce in record time the largest bill of goods in the history of the world. Obviously, this program not only will have right-of-way on the production facilities of the Nation but will require directly and indirectly such a large proportion of all kinds of materials as to make any planned production of civilian goods out of the question. Furthermore, as in the opinion of some, mass production is the only answer to speed and cost, the small businessman, whether he is a manufacturer or a distributor, will have tremendous difficulty in surviving.

From Washington we have the question, "Can small business be saved?" My answer is very definitely "Yes." It may be severely curtailed during the war period; some types will suffer far more than others, but with proper planning this very important group of our industrial economy can survive with sufficient vigor to take again its valued position in the Nation's welfare in the post-war period.

Before developing any plans of assistance, it must be recognized that only such plans as do not in any way interfere with war production can be considered. Specifically, such plans should include:

1. Technical and financial aid in converting plants and personnel to produce war orders.
2. Detailed instructions on how to qualify as a subcontractor or a primary bidder on war contracts.
3. Minimum allocation of critical materials on a man-hour basis; that is, give the enterprise priority which can employ the largest number of men for the longest hours on the smallest quantity of the critical materials.
4. Finally, and most important, give a big shot in the arm to wake up the small businessman to the fact he must do something for himself; he cannot just sit back after registering with some Government bureau and wait for the orders to tumble into his lap.

And while I said, "finally," since I read this morning's paper, I want to add a fifth: I do not personally favor a separate division or bureau for small businessmen. They are a part of the total economy. Whatever is done for them must be done not only so as not to interfere with the essential production of materials but to contribute and assist in that production. This can best be done, in my opinion, under the direction of the W. P. B.

Now, I could name a number of New England concerns in as varied lines as marble working, wood turning, metal workers, leather novelties, et cetera, who get themselves plenty of war orders as subcontractors without going near the Government.

The outlook for the civilian producer and the small businessman can be materially improved through a sound Government-sponsored plan which demands for its success initiative, energy, and intelligence on the part of the small businessman. A cooperative effort of this sort is bound to win out.

The CHAIRMAN. Thank you, Mr. Carter.
Mr. Vollmar.

STATEMENT OF BRYCE H. VOLLMAR, OF THE MASTER REFRIGERATED LOCKER SYSTEMS, INC., SIOUX CITY, IOWA

Mr. VOLLMAR. My name is Bryce H. Vollmar. My office is in Sioux City, Iowa, but I live 42 miles away, at Holstein, Iowa. I am vice president of the Master Refrigerated Locker Systems. I operate seven locker plants in small towns of 2,500 or less population. I also have a half interest in this factory which manufactures steel lockers which go into frozen-food locker plants, and I am representing 4,200 operators of frozen-food locker plants.

The CHAIRMAN. 4,200; where are they located; all over the country?

Mr. VOLLMAR. All over the United States.

The CHAIRMAN. You have an association?

Mr. VOLLMAR. Yes, sir.

The CHAIRMAN. And you are privileged to speak for them before this committee?

Mr. VOLLMAR. That is right.

I am also privileged to speak—on January 5 I was appointed on refrigeration and air-conditioning industry committee before the O. P. M.

The reason I am here now, I accepted the invitation to be on this advisory committee, which is composed of 32 men, representing the entire refrigerating air-conditioning industry, which was called into a meeting last Wednesday morning at 10 o'clock. The week before that I received your letter telling me to come to this committee. I left my home, which is 1,400 miles from Washington, on Sunday evening. Tuesday afternoon at 3 o'clock I received a telegram in my office advising me the meeting had been postponed for a week. How they ever expected to stop me, I don't know. I went over there.

I am a small businessman. I am paying my own expenses to attend this meeting, which I am glad to do, because I think we can do some good.

They told me the meeting had been postponed, not a week then, but a week and 1 day, which would be Thursday of this week. They said there is nothing you can do, but if you want to go home, go home, but I would have to turn around and come right back, which would cost me another \$250, so I stayed.

The CHAIRMAN. You mean they asked you to do that at your own expense?

Mr. VOLLMAR. That is right.

Saturday, I happened to have occasion to go into this O. P. M., which is now the War Production Board. They said, "Mr. Vollmar, you may just as well go home because the meeting has now been canceled indefinitely," so I am stating that to show you the cooperation that our industry has been getting.

As I say, I am also the chairman of the national defense committee, of the present Food Locker Association, of which there are 4,000 plants in the United States.

I do not know whether you men are from industrial areas or from farm areas, but in the State of Iowa we have about 500 of these present food-locker plants. They are nothing more or less than a refrigerated

room, in which there are from 150 to 1,000 lockers, where a farmer can butcher a hog whenever he wants to. He does not have to wait for hog-butchering time. He may butcher a hog in July or January, or before.

The CHAIRMAN. We have a lot of those lockers in Texas, built through the R. E. A., through cooperation of the Farm Credit Administration.

Mr. VOLLMAR. That is right. There is the booklet put out by the Farm Credit Administration.

We started to try to keep this industry alive in July; our committee awoke to the fact that last July we should start to do something, and the Department of Agriculture has given a letter which I might read, if you would care to have me take the time to read the letter from the Department of Agriculture to O. P. A., I would be glad to read it.

The CHAIRMAN. If you say it is important, go ahead.

Mr. VOLLMAR. It is [reading]:

The Office of Agricultural Defense Relations has been giving thorough consideration to the functions and conveniences that are performed by the frozen food locker industry. The rapid growth of this industry has testified to its usefulness and desirability.

If the present emergency were to last for a period of years, the frozen-food lockers might well be considered as pertaining to defense inasmuch as over a period of time it would be saving of other materials that are used in the preservation of foods such as glass cans, metal caps, cooking devices, the saving of fuel and the prevention of waste of food stuffs.

The National Frozen Food Locker Association has pointed out the advantages of frozen-food lockers, and we shall not attempt to better state their case.

There is little possibility of making frozen-food lockers serve the purposes of direct defense. The industry therefore must be awake in relation to the usefulness to civilians. When weighed as a factor in the preservation of foods, it serves the purpose with which no other storage device can very well compete. We feel that it should carry a rating at least as high as many devices that serve a like purpose.

This was written October 10, 1941.

Our industry is asking for about 10,000 tons of critical materials, including steel, copper, iron, and so forth.

The CHAIRMAN. Is this copper to extend existing lines? Or to take care of their existing facilities?

Mr. VOLLMAR. Both. New copper, I have and can give the amount of copper that we will require, which is less than 40 pounds per plant of copper, that the present food locker plant will process at the source of its origin, will average over a quarter of a million pounds of food-stuffs at the source of origin.

Now, here is one paragraph in a letter on July 24, which I wrote to Mr. Joseph L. Weiner, who was head of O. P. A. C. S., Food Division. We asked for 2,500 compressors, refrigeration coils, lockers, pipes and fittings, of which 50 tons was copper.

Priority on the above materials will insure a better diet of freshly frozen, home-grown fruits, vegetables, fish, poultry, eggs, dairy products, and meat for 705,000 new families, or 2,820,000 people with the unlimited endorsement of the present 1,250,000 families, or 5,000,000 people who now enjoy the security of an ever-normal food supply. The approximate amount of food that will be processed through this new equipment is 705,000,000 pounds, together with the 1,250,000,000 pounds being processed in the present plants.

This makes a total of approximately 2,000,000,000 pounds of food-stuffs which will be consumed at home, thus eliminating transportation

and releasing estimated carloadings for 75,000 freight cars annually.

The CHAIRMAN. Now, you state 40 tons of copper per plant?

Mr. VOLLMAR. That is right.

The CHAIRMAN. You don't mean it is distributed that well, do you? You mean that happens to be average per plant?

Mr. VOLLMAR. That is right.

The CHAIRMAN. How will it be distributed? How many plants will get this copper?

Mr. VOLLMAR. There will be 2,500 new plants.

The CHAIRMAN. That will get this copper?

Mr. VOLLMAR. That is right.

The CHAIRMAN. Have you gotten any encouragement toward getting that copper?

Mr. VOLLMAR. Yes; we have. We have got it if we can get a rating.

The CHAIRMAN. If you can get a rating?

Mr. VOLLMAR. That is right.

The CHAIRMAN. From whom do you get this rating?

Mr. VOLLMAR. From the Priority Division of O. P. M., which is now the War Production Board.

The CHAIRMAN. That is right. And who is in charge of that?

Mr. VOLLMAR. I don't think there is a man over there that can tell me. I have been trying for a week to find out.

Mr. FITZGERALD. Isn't his name King?

Mr. VOLLMAR. I had Senator Gillette trying to find out. I said, "You find out what I have got to do, and he sent me to men and they told me, 'I don't know how to tell you how to find it out.'"

The CHAIRMAN. I understand that they expect to have just one person who will pass on this. There won't be any 17 bottlenecks to go through if my information is correct, and one person will be able to say in 10 seconds whether you can get it or not. If that information is true you should have no trouble getting that passed on right away.

Mr. VOLLMAR. If that information is true that might be so, but I have not been able to verify that, Congressman Patman.

The CHAIRMAN. However, the War Production Board is rather new. I think we should give Mr. Nelson a little time.

Mr. VOLLMAR. We have operated through P. D. 1's. The refrigeration industry have made their recommendation. As I say, I am on the advisory committee which called a meeting which we are not going to have, but they have admitted air-conditioning is a non-essential business and said voluntarily that the dealers will not try to sell air-conditioning.

They have agreed that water coolers and beverage-dispensing cases are not essential but we feel that food is most essential and have put that at the top of the different branches, but we have a man at O. P. M. who was a confectionery clerk in a confectionary store who is the man who has rejected dozens of requests for frozen food locker plants, and it has gone so far that the local agricultural agent has said there are 195 farmers that want this service. The Department of Agriculture says they will slaughter 83,000,000 hogs next year.

In the little town of Holstein, Iowa, where I live, a town of 1,200 population, I own the locker plant. We slaughtered over 1,500 hogs that never left Holstein. Previously they had to go to Sioux City,

Omaha, or elsewhere, where they were processed and shipped back and the farmer went in and bought it.

The CHAIRMAN. And paid transportation both ways?

Mr. VOLLMAR. And tremendous profits to various handlers.

This is the brief that we presented [brief handed to chairman], and I want you to look at it. If you will look at that picture there you can see the movement of the hog or beef. It goes from the farmer into the locker plant and back for his own family consumption, instead of through these other phases.

Mr. KELLY. Is the pork properly processed against the trichinosis germ?

Mr. VOLLMAR. It is quickly frozen.

Mr. KELLY. But there is no way of processing the pork to eliminate the germ, is there?

Mr. VOLLMAR. Just as good a way as the packer has.

Mr. KELLY. Is it done there?

Mr. VOLLMAR. What do you mean?

Mr. KELLY. Is it processed as the packer processes pork in the packing plants and as he has the facilities of doing?

Mr. VOLLMAR. It is, inasmuch as the pork packer does not freeze all his pork.

Mr. KELLY. No; much of it is cooked, a great deal of it.

Mr. VOLLMAR. Some is cooked and some is smoked. We do that at these plants.

You are from Texas, Mr. Chairman. Your State shows that your ordinary home-killed and cured pork sustains a loss of 20 to 30 percent by mold, speaking of hams which have been cured. Is that correct?

The CHAIRMAN. I don't know. You know more about that than I do. Mold does not absolutely destroy the meat, does it?

Mr. VOLLMAR. You have to trim that off.

The CHAIRMAN. I know that, but isn't the best meat, especially beef, molded beef?

Mr. VOLLMAR. Aged beef, that is correct. But freezing will help do the same thing that mold will do. They have the light cell that will kill the mold and still ripen the beef. If it had not been for the war we would be into that right now.

The CHAIRMAN. They make the meat more delicious?

Mr. VOLLMAR. That is right, that is ultraviolet ray which kills the mold. That is where we eliminate a lot of this wastage.

Secretary of Agriculture Wickard is asking us to increase food. There are 200 items that I found out this week are not going to be canned in tin cans.

Last summer, when Ball Bros., manufacturers of glass fruit jars, were asking for 7,000 tons of zinc for lids for fruit jars, we estimated that as a normal requirement. We are only asking for 10,000 tons of all materials. We will save time and transportation facilities which are needed. We will save the farmer money, which we are not considering now, but we will save him money because he can eat his own hog for what it costs him to raise it plus the rent on the locker which is \$10 a year.

The CHAIRMAN. I am thoroughly sold on these lockers.

Mr. VOLLMAR. You know, there is a commercial brand of vegetables here [circular handed to chairman] and there are several hundred different varieties.

We don't need any tin; we don't need any zinc. We do need paper, that is true.

The CHAIRMAN. To summarize your testimony, in order to help little business, and, certainly, these 4,200 locker plants are in the category of small business, it is necessary that you get certain strategic materials which you have been unable to get.

Mr. VOLLMAR. That is right.

The CHAIRMAN. And it will not only help small business but will help in this program of food for defense?

Mr. VOLLMAR. That is right.

The CHAIRMAN. And you have been unable to reach the right party to pass upon your application?

Mr. VOLLMAR. I have had a confectionery clerk who never saw a locker plant, turning the applications down.

The CHAIRMAN. I don't know what his other qualifications might be. He might also have been in the food-locker business; I don't know about that.

Mr. VOLLMAR. He has never seen one.

The CHAIRMAN. You know all about him?

Mr. VOLLMAR. I have traced him enough to find that out.

Now, here is a telegram from my factory:

Repeat orders coming in until I don't know what to do with them. Everybody telephoning their quick-freeze full of meat, must have lockers. Inland canceled all our steel orders. Must have better than A-7 rating to get orders reinstated.

The CHAIRMAN. I think this committee can render a little service. In the morning, when this testimony is available—it will be printed tonight—we will send Mr. Nelson a copy of it and ask him to make every effort to assist you at the earliest possible moment.

Mr. VOLLMAR. Thank you.

Mr. HALLECK. You want to build and equip new locker plants?

Mr. VOLLMAR. In rural areas where food is raised; not in metropolitan areas where it still has to be shipped.

Those will come after the war is over.

But now we know there is going to be a curtailment. We know that transportation facilities are going to be taxed and the packing houses are going to be taxed and we don't want the food to spoil, the food that the farmers are going to step up their production on at this time.

We expect about 2,000 to 2,500 new plants.

Understand this, that a locker plant that will take care of 200 to 500 families only uses one little compressor one-third as large as it would take to air-condition this room. That is all we need. Instead of 200 to 500 compressors, we need one compressor which weighs between 1,000 and 1,500 pounds.

Mr. KELLY. Is it a community proposition or a rental charge?

Mr. VOLLMAR. Both. Some are private and some are cooperative. R. E. A. is financing them as Congressman Patman said, and cooperative creameries and dairies—

Mr. HALLECK. I think that they are a fine thing. There is one in my home town out in Indiana that has been fairly successful, I think. I have used it. But the question now is whether or not to build new ones, having regard to the requirements of over-all

economy and war effort. That is a decision somebody ought to make.

Mr. VOLLMAR. That is right.

Of course, the industry itself has analyzed the nonessential items. We are not going to try to sell air-conditioning. We are not going to try to sell beverage dispensers, but we don't want to come in a year from now and say, as the gentleman who preceded me said, "We should have done this a year ago." Now is the time to do it.

We know there will be an increase in food production such as we have never seen.

I live in an agricultural community in northwest Iowa. I am just one of many who are keeping more sows to raise more hogs. Now we are stepping them up, but why raise them and not be able to take care of them?

We know the packing plants won't be able to take care of them.

Now, let me show you this map [indicating on map]. There is the State of Iowa. Indiana is right next to that, and Texas is there. Every circle represents a small locker plant in that community.

Imagine the number of hogs that are going through the State of Iowa that will never see a packing house.

The CHAIRMAN. I wonder if they make this objection, that by having a large number of small plants it is not as economical as having a smaller number of larger plants. In other words, the same unit that is required for the storage plant in a small town, if put together with several other units of similar size would accommodate a greater capacity than the aggregate accommodations of the smaller places.

Mr. VOLLMAR. That is just where we have everything in our favor. It takes so much material to refrigerate so many tons. Whether we do it with these smaller compressors or put it into one big compressor makes no difference. Our materials will be the same except that we will be decentralized.

England has recognized the fact that decentralization is best. Thousands are using the smaller refrigeration houses in England today because the big warehouses have been bombed. The Army is realizing the importance of frozen food.

The CHAIRMAN. And you say it is more economical in the smaller units?

Mr. VOLLMAR. That is right.

Mr. HALLECK. How many butcher shops do you have in your home town?

Mr. VOLLMAR. In Holstein we have one. There is a display case—

Mr. HALLECK. I don't want to get into a controversy with you about this. I have heard many of the statements of the refrigerating people generally—and I agree with them—that the preservation of food and the matter of food supply, as affected by the refrigeration industry, is a terribly important thing, but having regard to this strictly rural community that you want to supply with these food lockers—I am not going to enter into a controversy between the local butcher-shop operators and the people who are coming in here—

Mr. VOLLMAR. That is the man who is putting this thing in.

Mr. HALLECK. They didn't in my town. I suggest that because it may well be that they will take into consideration the refrigeration facilities of the local butcher shops to supply the local needs along the line you are talking about.

Mr. VOLLMAR. Our local meatmen do not have anything except a display case probably 8 or 10 feet long.

Mr. HALLECK. Don't they have big refrigerated plants?

Mr. VOLLMAR. Oh, no.

Mr. HALLECK. That is a different situation.

Mr. VOLLMAR. They are all 6- or 8-foot display cases. They don't butcher their own hogs. The salesmen come in three times a week.

Mr. HALLECK. And they order out of the city?

Mr. VOLLMAR. That is right. Those fellows you are talking about, the chain stores, have taken them out of business in the last 10 years.

Mr. HALLECK. They have them in my town.

Mr. VOLLMAR. There are exceptions. You can get these statistics from the meat trade magazines, which will show the type of butcher you are talking about is out of the picture. If this man still has his machine, we will take the machine and put it on this job.

The CHAIRMAN. Are you through with this witness?

Mr. VOLLMAR. Let me make one more statement. We say we are not in direct defense. We are. And I want to prove that point.

A year ago last summer when they had the war games in Minnesota they brought the National Guard from Kansas and Missouri into Minnesota. A few weeks before they got ready to move one of the men came into my plant and said, "What temperatures do you have here?" I said, "Anything from 10 below zero to whatever it is outside today." He said, "We are going to move the National Guard and 1,000 men to the national war games in Minnesota." I said, "What do you want?" He said, "Ice cream." I said, "We will put that in a 10-degree-below-zero room," and the fresh meat, cream, butter, and eggs came into my plant 2 days before the Army games and were hung in my chill room. The frozen beans and peas and various vegetables went into the locker room. The Army came in at 4 o'clock in the afternoon and not a pound of anything spoiled. Everything they wanted was right there.

If there are any other questions, I will be glad to answer them.

The CHAIRMAN. Thank you very much. You have made a very great contribution to our hearing and I think you have the sympathetic cooperation of the members of this committee.

Now, without objection, a statement by Hon. Lewis D. Thill, Member of Congress from Milwaukee, will be inserted in the record.

STATEMENT OF HON. LEWIS D. THILL, MILWAUKEE, WIS., A REPRESENTATIVE IN CONGRESS FROM THE FIFTH DISTRICT OF WISCONSIN

Mr. THILL. Mr. Chairman and gentlemen of the committee, I should like to express briefly my interest in the problems now confronting the small businessman. I have attended several times at your committee hearings, and I want to express my appreciation of the work your committee is doing.

If our business and economic structure is to survive, the small businessman must also survive. Every effort must be made to

protect the businessman from the suffering and losses which a change in our war economy might bring to him. Because of the restrictions on the sale of automobiles and rubber tires, the automobile dealer and salesmen under him will suffer tremendously, unless something is done to rectify the condition. There are many other small businessmen who are being threatened with a loss of everything they have built up throughout the years, because of dislocations arising from our war economy. I strongly urge your committee to take drastic steps to save the small businessman from loss and possible extinction.

The CHAIRMAN. Is there anything else to come before the meeting at this time?

(No response.)

The CHAIRMAN. If not, we will be in recess until tomorrow morning at 10 o'clock.

(Whereupon, at 11:40 a. m., a recess was taken until the following day, Tuesday, January 27, 1942, at 10 a. m.)

SMALL BUSINESS IN THE UNITED STATES

TUESDAY, JANUARY 27, 1942

HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE TO CONDUCT A STUDY AND
INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM
IN ITS RELATION TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.

The select committee met, pursuant to adjournment, in the caucus room, Old House of Representatives Office Building, at 10 a. m., Hon Alfred L. Bulwinkle (North Carolina), acting chairman, presiding.

Present: Representatives Bulwinkle (North Carolina), acting chairman Kelly (Illinois), Halleck (Indiana), Hall (New York), and Ploeser (Missouri).

Mr. Ira Bird Kirkland, Jr., counsel for the committee.

Mr. BULWINKLE. Mr. Miller, come up, please, sir.

STATEMENT OF ALEX MILLER—Resumed

Mr. BULWINKLE. Mr. Miller, I think when we adjourned Thursday, that you were to have these allocation orders. I think that was one thing that you were to bring back.

Now, have you anything to say that you did not say the other day?

Mr. MILLER. Not that I know of.

Mr. BULWINKLE. In addition to what you did say?

Mr. MILLER. Not that I know of.

Mr. HALLECK. Mr. Miller, how many of these allocation orders are there?

Mr. MILLER. There are over 450, somewhere between 450 and 500.

Mr. HALLECK. Now, what is the mechanics of the thing; what causes you to make one of these allocation orders?

Mr. MILLER. If a consumer contacts our department and tells us that they are short of scrap and need scrap, and need some help, we are there for that reason, to help them get scrap when they get into that predicament. We then ask them to answer certain questions as to their pig-iron inventory on hand, how much pig iron is due them but not yet received, how much purchased scrap they have on order, how much purchase scrap they consume per month, how much scrap they have in inventory, who owes them scrap, and how much, and what their defense business is; that is, how much A-1-A they have, what percentages of A-1-2, and so on, down to A-10, and then we try to help them get enough scrap so they can operate especially for their defense business.

Mr. HALLECK. Now, in granting those allocation orders, do you make any preference between those people who are engaged in defense business, and those who are not engaged directly in defense business?

Mr. MILLER. Yes.

Mr. HALLECK. That is, to which one do you allocate first or primarily?

Mr. MILLER. Well, it just so happens that just everyone with the exception of possibly one or two that have asked for an allocation were entitled to help because they know this, that if they are not operating on defense they feel that—it is my own thought—they possibly feel that they should not be asking for help if they are not operating on defense business, but I say in every one of these cases where we have allocated this scrap was all for defense production.

Mr. HALLECK. Now, how do you know the source from which you can get the scrap?

Mr. MILLER. Well, in the first place, we get reports every month from dealers and producers of scrap. By producers, we mean railroads and plants such as General Motors, Chrysler, and so on and they tell us how much scrap they produce every month, and that is how we know where to go and get it.

Mr. HALLECK. Now, however, in making your allocations—

Mr. MILLER. And the same thing is true as far as the dealers are concerned, they report their inventories to us, they report where they get their scrap from, where it goes to, and so forth.

Mr. HALLECK. Have you in making these allocation orders preferred any scrap dealers or brokers or wholesalers in such manner as to permit them to hoard scrap?

Mr. MILLER. Absolutely not. The record will show that.

Mr. HALLECK. Well, what would the effect of these allocation orders be on hoarding if there is hoarding in the country, that is assuming that you allocated the scrap that was in the hands of a dealer who was refusing to sell it or waiting for a higher price?

Mr. MILLER. Well, in every case where anyone refused to ship it was either—they would either call and say that—oh, that they could not get the help, or labor, or some such thing. But after talking to them we always got them to ship, or if, in some cases we had correspondence, in one particular case we received a letter from an attorney of this so-called hoarder, and I immediately wrote this attorney and I received a letter by return mail that this fellow was going to ship the scrap, and we checked with the mill who he was going to ship to, and the mill said he is getting shipments from this particular hoarder satisfactorily.

Mr. HALLECK. Suppose that a man refuses to ship after you have made one of these allocation orders, what do you do then, or what can you do?

Mr. MILLER. If a man refused to ship then we would turn him over to the Compliance Department.

Mr. HALLECK. Has that happened on any occasion?

Mr. MILLER. Where a man refused to ship?

Mr. HALLECK. Well, have you turned over any of these matters?

Mr. MILLER. Oh, yes.

Mr. HALLECK. To the Compliance Department?

Mr. MILLER. Yes, yes; I have.

Mr. HALLECK. How many of them?

Mr. MILLER. About nine or ten. Ten, I guess.

Mr. HALLECK. And in a word, what was the reason for that action on your part?

Mr. MILLER. Well, in these 10 the mill would report to us that so-and-so is not shipping on his allocation, for one reason or another, and we turned those cases over to the Compliance Division immediately for investigation.

Mr. HALLECK. After you make one of these allocation orders, is there any compulsion on the consumer, the steel company that needs it, or iron company, to do anything to bring about the shipment, or is it rather a responsibility that is put on the person who has the scrap to send it on to the consumer?

Mr. MILLER. Oh, I think the responsibility rests with both. I think it is the responsibility of the shipper to see to it that that scrap moves, and it is also the responsibility of the steel mill to expedite that scrap, and see to it that, or do all he possibly can to get the scrap moving, and then if that scrap does not move the steel mill should report to us and tell us that they are not getting the scrap, and then we in turn immediately would turn that case over to the Compliance Department, say that so-and-so refuses to ship.

Mr. HALLECK. Whose is the responsibility then for pursuing action against the recalcitrant person, is that part of your responsibility or your division?

Mr. MILLER. No.

Mr. HALLECK. Or is that in a separate division?

Mr. MILLER. No. It is not our responsibility at all.

Mr. HALLECK. Do you know whether or not they filed actions or prosecution on any of those?

Mr. MILLER. I do not know.

Mr. HALLECK. Noncompliance orders?

Mr. MILLER. I do not know.

Mr. HALL. Mr. Miller, I would like to get a picture of the scrap business. First, you start with the little fellow who goes around and collects it, that is right, isn't it? Now, what does he do with the scrap?

Mr. BULWINKLE. Speak up, Mr. Miller.

Mr. HALL. Give me the picture.

Mr. MILLER. I would rather have one other in our department that I think is better qualified to answer that question, for the simple reason that I have just been paying attention to allocations in our division.

Mr. HALL. Well, I am speaking to you now as a scrap dealer.

Mr. MILLER. Yes.

Mr. HALL. You are in the scrap business?

Mr. MILLER. Yes.

Mr. HALL. Now, as a scrap dealer, could you give me that picture yourself?

Mr. MILLER. What was your question?

Mr. HALL. I just want to find out about the ramifications of the whole thing from the collector to the so-called big dealer or broker.

Mr. MILLER. Well, in the first place there is a peddler, and he collects the scrap, delivers it to the dealer; the dealer prepares it. The collector is a peddler.

Mr. HALL. That is right.

Mr. MILLER. He sells his scrap to a dealer. The dealer prepares the scrap. When this scrap comes off the wagon or truck that scrap must all be assorted, cut and assorted, and then the yard dealer sells to the broker or possibly directly to the consumer, not necessarily to the broker, and the broker in turn sells to the steel mill.

Mr. HALL. Well, is the broker generally a man who owns no scrap yards?

Mr. MILLER. No, no. The broker may have scrap yards as well.

Mr. HALL. How many brokers are there in the country?

Mr. MILLER. I am sorry. I could not answer that question. I do not know.

Mr. HALL. Well, would you say there are fifteen big brokers, as they are called?

Mr. MILLER. Oh, no. There are a lot more than that.

Mr. HALL. Would you say that there is any particular group that controls the scrap business?

Mr. MILLER. I would not say so; no.

Mr. HALL. What generally was the price of scrap before we got into this emergency?

Mr. MILLER. As of what date?

Mr. HALL. Well, before—we will say before Pearl Harbor.

Mr. MILLER. Well, the highest priced basing point we had was at Pittsburgh, the price as set by O. P. A., which was \$20 a gross ton, which is a long ton.

Mr. HALL. Well, let us go back beyond Pearl Harbor. Let us say January last year.

Mr. MILLER. Same thing.

Mr. HALL. \$20?

Mr. MILLER. You mean January, when?

Mr. HALL. January 1941.

Mr. MILLER. January 1941, the price was up around \$25, Pittsburgh.

Mr. HALL. Well, what would cause the 1941 price to be \$25 in January, and now \$20?

Mr. MILLER. Well, the price of \$20 was fixed by O. P. A.

Mr. HALL. But you say it was \$25 back in January?

Mr. MILLER. Well, the prices were not fixed by the Office of Price Administration until April 3, if I remember right.

Mr. HALL. Were you in the scrap business during the time that they were sending all this scrap to Japan?

Mr. MILLER. Yes.

Mr. HALL. I was just wondering what price per ton did they pay for the scrap that was taken out of the country, if you know?

Mr. MILLER. I do not know.

Mr. HALL. Is there anyone in your department who would know?

Mr. MILLER. I do not know.

Mr. HALL. Do you know whether they paid \$20 a ton?

Mr. MILLER. I do not know.

Mr. HALL. You do not know whether it was more or less than that?

Mr. MILLER. No.

Mr. HALL. That is all.

Mr. BULWINKLE. Just a minute. Let me ask you, where do the wholesalers come in that picture that you gave Mr. Hall just now?

Mr. MILLER. What do you mean by the wholesalers?

Mr. BULWINKLE. I mean the wholesalers.

Mr. MILLER. Well, I do not quite understand what you mean by the wholesalers, because there is no such term in the scrap-iron business as "wholesalers."

Mr. BULWINKLE. Well, do you mean to tell me that when this editor of this paper was in here yesterday and he said there was a wholesaler, that you say it is not so?

Mr. MILLER. I do not know what he means.

Mr. BULWINKLE. He said there were the collectors, or peddlers, and then the junk shop or retailer, and then a wholesaler.

Mr. MILLER. Unless he means brokers as wholesalers.

Mr. BULWINKLE. No; then brokers.

Mr. MILLER. Beg pardon.

Mr. BULWINKLE. Then brokers on top of that.

Mr. MILLER. I do not know what he meant. If he was here, and you asked him what he meant—

Mr. BULWINKLE. I asked him what he meant, but I am asking you.

Mr. MILLER. I do not know what he means by "wholesalers".

Mr. HALLECK. I wonder—that is a retailer, he did refer to retailers and wholesalers and brokers, wasn't it, Major?

Mr. BULWINKLE. Yes.

Mr. HALLECK. Now, are there fellows in this business who gather the junk, or the scrap together after the retailer, who buys it from the peddler, gets it together, that is, are there others in that picture between the retailer and the broker that might be classed as wholesalers?

Mr. MILLER. Well, from my experience, the scrap goes from the peddler or collector to the yard dealer, and then the yard dealer, if he does not sell direct to a mill, would sell to a broker.

Mr. BULWINKLE. Well, how do you collect then, please—we have a retailer in a small town in Ohio.

Mr. MILLER. Yes.

Mr. BULWINKLE. Do you buy from any of those small dealers in your place at Cleveland?

Mr. MILLER. Yes.

Mr. BULWINKLE. Well, then, you are in effect a wholesaler?

Mr. MILLER. If you want to term it that way.

Mr. BULWINKLE. Well, that is what I am trying to get at.

Mr. MILLER. I see.

Mr. BULWINKLE. To find where he would be in the picture, in the question Mr. Hall asked. All right, Mr. Ploeser.

Mr. PLOESER. Are there any principal beneficiaries in these allocation items?

Mr. MILLER. I beg pardon.

Mr. PLOESER. Are there any principal beneficiaries in these allocation items?

Mr. MILLER. What do you mean by principal beneficiaries?

Mr. PLOESER. I mean by that, one or two steel companies for whom you have had to allocate every time.

Mr. MILLER. Oh, no.

Mr. PLOESER. How many have been the beneficiaries of the allocation? Have you any idea?

Mr. MILLER. No. You have got the records there.

Mr. PLOESER. Mr. Chairman, I would like to ask Mr. Miller some questions a little later.

Mr. BULWINKLE. Well, we are going to get through with him in a very short time.

Mr. PLOESER. Well, he is not going to leave immediately.

Mr. BULWINKLE. No.

Mr. HALL. May I ask another question.

Mr. MILLER. Can you ask these questions now so I can go to work?

Mr. BULWINKLE. Isn't this work?

Mr. MILLER. Yes; but there are some steel mills and foundries that want help, if I got over there—

Mr. BULWINKLE. That is what we are trying to do, to help them.

Mr. HALL. Mr. Miller, I think this information comes from the Bureau of Mines. It shows during the year 1940 Japan paid an average of \$17 a ton for nine hundred and fifty-eight thousand odd tons of steel and iron scrap. Now, what do you think would make the difference in price between \$17 a ton for Japan in 1940, and you said it was \$25 a ton in the United States, in January 1941?

Mr. MILLER. Well, you would see there is in the first place, there is a difference in freight rates from the coast to Pittsburgh. In other words, if you took that very same scrap and shipped it from the point of export to Pittsburgh, in all probability your price would be—would undoubtedly be higher than \$25, Pittsburgh.

Mr. HALL. But I presume this scrap that Japan got came from all sections of the country, didn't it?

Mr. MILLER. No.

Mr. HALL. Well, where did it come from?

Mr. MILLER. No. Now, I am in the interior, that is my place of business is in Ohio, and I know that no scrap ever left Ohio or the district of Pittsburgh to go to either the east coast, the west coast, or the southern coast, for export.

Mr. HALL. All the scrap that Japan got came from the seaboard sections?

Mr. MILLER. As far as I know. I do not know of any scrap that left Ohio.

Mr. HALL. And there is approximately \$8 a ton difference there, and you would say that would be composed of freight charges?

Mr. MILLER. I should think so.

Mr. HALL. That is all.

Mr. PLOESER. Mr. Miller, do you remember the other day we had some pictures here that were taken by the Office for Emergency Management, certain of these scrap dealers that you had to cite, or whatever you do in your department, when you feel that they are hoarding.

Mr. MILLER. Yes.

Mr. PLOESER. We kept those pictures with the committee, and we have had some recent ones made of the same scrap yards. I am going to show these to you, because I am not an expert on scrap. That is the first—what is the date of that picture? Is that November?

Mr. MILLER. Well, there are two dates on here, November 26.

Mr. PLOESER. November 26. Well, that was the picture in proof evidently of this picture of October 28, showing that there was a hoarding of scrap. Now, here is a picture dated January 24, of the same yard. This is David Borowsky, Fitchburg, Mass., a little bit clearer picture, but it shows the same scrap, if I am able to determine it.

Apparently he has not done very much moving out of that yard.

Mr. MILLER. Well, his record shows that he has been shipping scrap right along.

Mr. PLOESER. Well, does he own other yards?

Mr. MILLER. Well, you see this scrap here is unprepared scrap.

Mr. PLOESER. Yes; I understand.

Mr. MILLER. And in order to ship scrap to a mill you must have a certain backlog of unprepared scrap, and it may be that he has been getting enough scrap into his yard to warrant him letting this alone and preparing what has been coming in every day, although we have gotten after this fellow, and we found that he has been shipping, and he—I have a letter in my files that he has promised to clean all this scrap up within 30 days.

Mr. PLOESER. Well, here are some more pictures of the same scrap dealer—what do you call him, a dealer or a wholesaler?

Mr. MILLER. Who is this?

Mr. PLOESER. Borowsky.

Mr. MILLER. That is the same man.

Mr. PLOESER. The same man. Here is another picture of his yards. Here is a picture dated October 28, here is a picture dated November 26.

Mr. MILLER. It is all unprepared scrap.

Mr. PLOESER. And here is a picture taken on January 24.

Mr. MILLER. That is all unprepared.

Mr. PLOESER. Well, don't you think it is worth investigating to find out whether he has been actually shipping, and when he is going to prepare this scrap?

Mr. MILLER. That is right. That has been done.

Mr. PLOESER. When it is going into flow? Well, what is his report, if he has reported?

Mr. MILLER. His report is that he will have—that all this steel you see there will add up to about 200 tons of heavy melting steel. He has promised to get it out within 30 days.

Mr. PLOESER. When was that promise made?

Mr. MILLER. I do not know the exact date. I talked to him on the phone a week ago, I think it was, for the last time a week ago today. Then he promised to be in the office on Friday, which he was. He was in our office on Friday, and I told him that he was holding up this defense program by not getting this material cut, and he wrote me a letter which I received yesterday, that he had a sum total of about, if I recall correctly, 700 tons of heavy melting steel which would be prepared within the next 30 days, and had—although he has been shipping scrap that has been coming into his yard right along.

Mr. PLOESER. Well, Mr. Miller, did he give any excuse for not having done this?

Mr. MILLER. Yes.

Mr. PLOESER. Prior to this time?

Mr. MILLER. Yes. His excuse was that he cannot get labor.

(The pictures referred to were marked, respectively "Exhibits Nos. 1 to 6, inclusive, Borowsky, January 27, 1942.")

Mr. PLOESER. Now, here is Barschow & Sons, October 27. That is the original picture.

Mr. MILLER. Yes.

Mr. PLOESER. There is another one, November 25. I understand this is another one that was allocated.

Mr. MILLER. Beg pardon?

Mr. PLOESER. That is another one that was allocated?

Mr. MILLER. That is right.

Mr. PLOESER. Here is one—January 23. He evidently has started to break up a little of that material there. When was that allocation made?

Mr. MILLER. If you will let me have that—January 10.

Mr. PLOESER. January 19 is when he was allocated?

Mr. MILLER. Yes.

Mr. PLOESER. Well, isn't that quite a spell after the November 25 proof that he was hoarding?

Mr. MILLER. I did not see that, though, until December 23 or 24.

Mr. PLOESER. You still had more than 3 weeks.

Mr. MILLER. That is right; so I—naturally, I had some correspondence with him. The correspondence shows that he has been shipping right along.

Mr. PLOESER. Now, have you any evidence that he has moved any scrap since the 19th of January?

Mr. MILLER. I have not in here, but I can get it for you.

Mr. PLOESER. I would like to ask you to send it to the committee.

Mr. MILLER. I shall be very happy to—whether he has moved any scrap since January 19. Surely.

(The pictures referred to were marked, respectively, "Exhibits Nos. 1 to 3, Barschow & Sons, January 27, 1942.")

Mr. PLOESER. Now, we have Kaufman & Sons; here is their picture of October 27. Here is a picture of November 25. As near as I am able to see, the picture of January 23 shows no movement of scrap.

Mr. MILLER. This man's scrap was allocated.

Mr. PLOESER. When was it allocated? Can you tell from your record?

Mr. MILLER. Yes; January 16; although we had ordered David Kaufman to ship the scrap before this date, before our allocation order became effective.

Mr. PLOESER. Now, have you evidence that he followed out your order?

Mr. MILLER. Yes.

Mr. PLOESER. And shipped?

Mr. MILLER. Absolutely.

Mr. PLOESER. That is prior to January 16?

Mr. MILLER. Yes; and that is an order we gave him on January 16, and he is carrying that out.

Mr. PLOESER. Has he any other yards?

Mr. MILLER. Well, we only have one office. When we send out an allocation, as far as we are concerned, we do not care how many yards he has.

Mr. PLOESER. I understand that.

Mr. MILLER. In other words, he has to ship from any and all, or one. If he has only one, he can only ship from one, but if he has more than one, he should ship from all.

Mr. PLOESER. Now, the purpose of these questions and the pictures is that if there are any persons hoarding, we want to ferret them out and get them into action.

Mr. MILLER. That is right.

Mr. PLOESER. And we want that action to be prompt, because we do not want steel furnaces shutting down if there is available scrap, and after you have allocated it, we want to be sure these people pay attention to your allocation orders.

Mr. MILLER. Apparently the steel mills have that. If they do not receive deliveries they notify us.

Mr. PLOESER. Apparently from the pictures I showed you up to this point, they have been negligent of your order, because from the picture evidence we have, they have not moved much scrap. We see the same pieces of scrap laying in the pictures.

(The pictures referred to were marked, respectively, "Kaufman's Exhibits 1 to 6, inclusive, 1-27-42.")

Mr. PLOESER. Take these pictures of Symanski Bros., Troy, N. Y.—a considerable amount of scrap iron—one dated October 29, November 28, shows some movement, but I think we even called them a hoarder on that date. January 25 shows that new scrap has evidently been brought into the yard and prepared, some moved out. I am putting that in the record so that where credit is due we want credit to be given.

Mr. MILLER. We started action on them on the 23d of December.

Mr. PLOESER. On the 23d of December?

Mr. MILLER. Yes.

Mr. PLOESER. You have apparently gotten some results. It shows action will bring results, and here are other pictures of the same concern, another view of their yards, which show virtually the same results.

Mr. MILLER. Yes.

(The pictures referred to were marked, respectively, "Exhibits 1 to 6, inclusive, Symanski, 1-27-42.")

Mr. PLOESER. Now, I am about to the end of this, but I want to show you Silver & Sons yard at Portland, Maine. I do not remember all the discussion here the other day, but it seems to me as though this was a large yard, and he was a hoarder. It shows that possibly there was some movement, though very little. Here is the picture of October 28.

Mr. MILLER. That scrap was allocated on December 10.

Mr. PLOESER. December 10?

Mr. MILLER. Yes.

Mr. PLOESER. Then here is a picture of November 27.

Mr. MILLER. Well, all of this in this picture is not scrap. It looks like lumber to me.

Mr. PLOESER. Well, that in the foreground of the picture—but the main part of the picture is plainly scrap.

Mr. MILLER. That is right. But the steel mill reports, reported to me that they do, that they are receiving satisfactory shipments from him.

Mr. PLOESER. How recent is that?

Mr. MILLER. That was—

Mr. PLOESER. Was it within the last few days?

Mr. MILLER. Yes. That was last Tuesday, or Wednesday of last week.

Mr. PLOESER. Well, here is a picture—January 24; this shows a very small movement apparently.

Mr. MILLER. Yes.

Mr. PLOESER. It appears as though his scrap is prepared.

Mr. MILLER. That is right.

Mr. PLOESER. And it will be ready for shipment immediately?

Mr. MILLER. That is right.

Mr. PLOESER. Where furnaces are shut down, that could probably be of some benefit if it were shipped immediately, could it not?

Mr. MILLER. Yes.

(The pictures referred to were marked "Exhibits 1, 2, and 3, Silver, 1-27-42.")

Mr. PLOESER. Now, to complete the record on the list that we had the other day, here is David Kaufman & Son, Elizabeth, N. J., a picture of October 27, and the picture of November 25, which was the proof of his hoarding.

Mr. HALLECK. Could I see that allocation list?

Mr. MILLER. Surely.

Mr. PLOESER. And a picture of January 23. He is still hoarding.

Mr. KELLY. Mr. Miller, on that point there, in normal times what is the turn-over from the time scrap comes into the scrap yard until it is on the way out to the furnace, or wherever it goes to—about 3 to 4 weeks, is it?

Mr. MILLER. Not always; sometimes 3 to 4 months, sometimes 8 months. It all depends on supply and demand. In 1932 you could not give anything away; then business started to get better. In 1939 it was hard to move scrap.

Mr. KELLY. What would be the average turn-over now, in weeks?

Mr. MILLER. Today?

Mr. KELLY. Yes.

Mr. MILLER. Oh, at most—in most cases, I would say about 2 to 3 weeks. That is, in some cases 1 day.

Mr. BULWINKLE. Mr. Miller, what is your title at the War Production Board, or the former O. P. M.?

Mr. MILLER. Industrial analyst.

Mr. BULWINKLE. What?

Mr. MILLER. Industrial analyst.

Mr. BULWINKLE. As such, what are your duties?

Mr. MILLER. Allocation of scrap.

Mr. BULWINKLE. In the allocation of scrap, do you have to investigate the amount of scrap that is on hand in the United States, know about that?

Mr. MILLER. I do not investigate that; no.

Mr. BULWINKLE. Are these reports handed to you?

Mr. MILLER. Which reports?

Mr. BULWINKLE. Well, I believe you said the other day that reports came in as to the amount of scrap on hand.

Mr. MILLER. Oh, yes. We have copies of those reports that I have access to.

Mr. BULWINKLE. Now, how much scrap iron do you estimate is on hand in the United States now?

Mr. MILLER. I do not know. Do you mean the sum total?

Mr. BULWINKLE. Yes. In the yards.

Mr. MILLER. The Bureau of Mines get those figures for us, and what there is today I do not know.

Mr. BULWINKLE. The Bureau of Mines gets what is in the scrap yards?

Mr. MILLER. Yes.

Mr. BULWINKLE. You do not hear from them directly at all, then, as to what they have got on hand?

Mr. MILLER. Yes; we do; but the Bureau of Mines gets all the-- gives us a figure as to how much scrap there is, sum total in all the yards of the country. After they receive all these reports in every month--

Mr. BULWINKLE. Well, have you gotten any reports from any of the yards yourself?

Mr. MILLER. Yes.

Mr. BULWINKLE. That you know of?

Mr. MILLER. Oh, yes. We get reports from them, and in these reports they tell us what scrap they have.

Mr. BULWINKLE. Can you give the committee an idea of how much scrap they have on hand from those reports which you received?

Mr. MILLER. No.

Mr. BULWINKLE. Can you not remember?

Mr. MILLER. Do you mean from each of the yards, the sum total?

Mr. BULWINKLE. Yes.

Mr. MILLER. No.

Mr. BULWINKLE. That is what I am talking about.

Mr. MILLER. No; because I did not add them all up to find out how much there was in the country.

Mr. BULWINKLE. Well, as an analyst, that looks like that ought to be part of your duty, isn't it?

Mr. MILLER. Well, it just so happens that that particular part of the work has been delegated to be done by the Bureau of Mines.

Mr. BULWINKLE. Well, then, strictly speaking you are only an allocator down there?

Mr. MILLER. That is right.

Mr. BULWINKLE. That is all you have to do?

Mr. MILLER. That is right.

Mr. BULWINKLE. Have you allocated any brass?

Mr. MILLER. No.

Mr. BULWINKLE. Or any other metals besides--

Mr. MILLER. No. I am in the iron and steel branch of the War Production.

Mr. BULWINKLE. Well, who has charge of the brass and copper and other metals?

Mr. MILLER. I do not know.

Mr. BULWINKLE. What is your salary down at the OPM?

Mr. MILLER. No salary.

Mr. BULWINKLE. A dollar-a-year?

Mr. MILLER. I imagine so.

Mr. BULWINKLE. Who pays you? Does anyone—do you draw any salary from any concern, or anything?

Mr. MILLER. Do I draw any salary from any concern?

Mr. BULWINKLE. Yes.

Mr. MILLER. Yes.

Mr. BULWINKLE. Who?

Mr. MILLER. The J. Miller Co.

Mr. BULWINKLE. Well, are your expenses down here paid by the Federal Government?

Mr. MILLER. Yes.

Mr. BULWINKLE. How much?

Mr. MILLER. \$10 per day.

Mr. BULWINKLE. Are you drawing any salary from your institution?

Mr. MILLER. No.

Mr. BULWINKLE. The scrap iron and steel?

Mr. MILLER. No.

Mr. BULWINKLE. None at all from there?

Mr. MILLER. No.

Mr. BULWINKLE. And the only salary you have is from your own concern in Cleveland?

Mr. MILLER. This J. Miller Co. is not a scrap iron company.

Mr. HALLECK. You say it is not?

Mr. MILLER. No.

Mr. BULWINKLE. What is it?

Mr. MILLER. A motor transportation company.

Mr. BULWINKLE. Didn't you tell me the other day, I asked you about that, what it was? I thought you said—

Mr. MILLER. You asked me the other day, as I understood, whether I was connected with any scrap iron company. I said yes. That is the Columbia Iron & Metal Co., from which I draw no salary.

Mr. BULWINKLE. You draw no salary from them at all?

Mr. MILLER. No; and did not draw any salary from the Columbia Iron & Metal Co., before I came to Washington.

Mr. BULWINKLE. The only salary which you draw is from the transportation?

Mr. MILLER. No. One more.

Mr. BULWINKLE. One more?

Mr. MILLER. Universal Steel Co., which is not a scrap-iron company.

Mr. BULWINKLE. Well, what does the Universal Steel Co. do?

Mr. MILLER. The Universal Steel Company is a steel warehousing company.

Mr. BULWINKLE. Where is that located?

Mr. MILLER. In Cleveland. That is not a scrap-iron company.

Mr. BULWINKLE. Is that a corporation?

Mr. MILLER. That is a corporation.

Mr. BULWINKLE. What is your salary from that?

Mr. MILLER. I would just as soon tell that to the committee in private. I do not want to give you that for public information.

Mr. BULWINKLE. All right. Do you care about telling what your salary is from the transportation company?

Mr. MILLER. I will give it to the committee in private.

Mr. BULWINKLE. I did not care particularly about it.

Mr. MILLER. I do not hesitate to give that to you, but I do not think it ought to be public information. It is my own personal matter.

Mr. BULWINKLE. That is all right. I am not pressing it.

Mr. MILLER. You may have it if you want it.

Mr. BULWINKLE. I do not care about it.

Mr. MILLER. You can check that at the Department of Internal Revenue, I imagine.

Mr. BULWINKLE. I just wanted to find out your connection.

Is there anything else you gentlemen think of?

Mr. HALLECK. Mr. Miller, in going through this allocations list, I have found allocations have been made against a great many manufacturing concerns.

Mr. MILLER. Yes.

Mr. HALLECK. And business concerns, as well as what I assume are junkyard, or scrap dealers.

Mr. MILLER. That is right.

Mr. HALLECK. Does the allocation of itself indicate necessarily a reluctance on the part of the person who has the scrap?

Mr. MILLER. No.

Mr. HALLECK. Or are you partly doing this allocation to supply the needs of the people who need the scrap?

Mr. MILLER. That is right. In other words, in many of those cases, we have allocated from plants to furnaces where some of that scrap may have been going to the open hearth, and the electric furnace must have that grade, and the open hearth can use something else.

Mr. HALLECK. Now, it is true, though, that you could use this system of allocations to take scrap away from a fellow who might be hoarding?

Mr. MILLER. Yes.

Mr. HALLECK. If there is some arousing of sentiment over the country that brings a lot more scrap into the regular channels of trade, are you people down there so authorized and of a mind to see to it that that scrap moves on in to the people that need it?

Mr. MILLER. Absolutely.

Mr. HALLECK. Of course, that is a thing I am sure we are all interested in.

Mr. MILLER. Our records will show that, and reports have been made about certain firms, for example—I do not mean scrap-iron firms, but certain industries that have held scrap for one reason or another, and as soon as we were given that information we immediately allocated scrap.

Mr. HALLECK. That is all.

Mr. HALL. Mr. Miller, I believe you said there were 12 furnaces stopped in Youngstown, Ohio?

Mr. MILLER. Yes.

Mr. HALL. And that they were stopped because they lacked the scrap to go ahead?

Mr. MILLER. Yes.

Mr. HALL. And you also said that the blame was partially on the scrap dealer and partially on the steel company?

Mr. MILLER. Yes.

Mr. HALL. Are those furnaces moving today?

Mr. MILLER. I really do not know.

Mr. HALL. Well, it seems to me that is the important part of this picture. Now, who does know in your department whether or not that same situation exists, that we have furnaces in the country that are not moving because of lack of scrap.

Mr. MILLER. Well, I take it for granted that scrap is moving more freely into these furnaces now because we have not heard anything in the last few days from them as to complaints.

Mr. HALL. Does your record of allocations here show from whom you allocated steel to those furnaces?

Mr. MILLER. Yes.

Mr. HALL. It does?

Mr. MILLER. Yes.

Mr. HALL. But you do not know whether or not that allocation has actually taken place yet?

Mr. MILLER. Yes.

Mr. HALL. There are deliveries under it?

Mr. MILLER. If these steel mills are not receiving deliveries they immediately notify us.

Mr. HALL. Well, could you let this committee know by letter whether or not today those mills are working to the limit? In other words, those furnaces were not working last week. Now, if they are not working this week, there is still something wrong with the system; is not that right. If it is lack of scrap that causes it—and I understood you to say that was the cause—can you let this committee know whether or not those furnaces are opening, and if they are not, don't you agree with me it shows some lack of attention somewhere along the line?

Mr. MILLER. Yes.

Mr. HALL. There is something wrong somewhere?

Mr. MILLER. There is something wrong somewhere.

Mr. HALL. And something that should be corrected.

Mr. MILLER. Yes.

Mr. HALL. Will you let the committee know about that before the close of the day—you can take that up with the counsel, by phone or by letter.

Mr. MILLER. If I do not have it today, I will have it, because I will have to contact these steel people.

Mr. HALL. I want to know if the 12 furnaces are still shut.

Mr. BULWINKLE. As an analyst it would be your job to look after that anyhow, wouldn't it?

Mr. MILLER. Beg pardon?

Mr. BULWINKLE. As an analyst it would be your job to look after that anyhow, wouldn't it?

Mr. MILLER. My job is simply to allocate scrap when they ask for an allocation and they are entitled to get it.

Mr. BULWINKLE. All right.

Mr. HALL. Would your records show how many furnaces in other parts of the United States are closed down because of lack of scrap?

Mr. MILLER. No.

Mr. HALL. Well, who would have that—what department, and who in what department would have it?

Mr. MILLER. Someone in our department would know.

Mr. HALL. Well, can you get that information to us? Would Mr. Borinstein know that?

Mr. MILLER. I imagine he would.

Mr. HALLECK. I notice in this allocation sheet that Youngstown Sheet & Tube at Youngstown, Ohio, has a great many allocations, starting back in December. Now, is that the company that is involved over there?

Mr. MILLER. No. Republic and Youngstown, both. Republic Steel Corporation at Youngstown and Warren, that is all in the same district.

Mr. HALLECK. That is all.

Mr. KELLY. Mr. Miller, if I understood you correctly, you stated you were a member of the Columbia Iron & Metal Co. of Cleveland?

Mr. MILLER. That is right.

Mr. KELLY. Is that also a member of the Scrap Iron and Steel Institute?

Mr. MILLER. That is right.

Mr. KELLY. Did I understand you to say that you were not a member of the Scrap Iron and Steel Institute?

Mr. BULWINKLE. No. In justice to him, I asked him if he was paid by it, and he said he was not. He is a member. He is a director of it, I think.

Mr. MILLER. No; I am not.

Mr. BULWINKLE. You are not?

Mr. MILLER. No.

Mr. BULWINKLE. Who is Louis Miller?

Mr. MILLER. What is that?

Mr. BULWINKLE. Who is Louis Miller?

Mr. MILLER. Louis Miller?

Mr. BULWINKLE. Yes.

Mr. MILLER. That is my brother.

Mr. BULWINKLE. All right. That is all, Mr. Miller. Thank you, sir.

Mr. Borinstein, state your position, and your Washington address, and your home address.

STATEMENT OF LOUIS J. BORINSTEIN, CONSULTANT, SCRAP IRON AND STEEL SECTION OF THE OFFICE OF PRODUCTION MANAGEMENT

Mr. BORINSTEIN. Louis J. Borinstein, consultant, Scrap Iron and Steel Section, O. P. M., now War Production Board. Mayflower Hotel in Washington. 4137 North Meridian Street, Indianapolis.

Mr. BULWINKLE. Now, Mr. Borinstein, the committee would like to have from you, knowing that you know it, full information about this scrap proposition.

Mr. BORINSTEIN. Mr. Chairman, and gentlemen of the committee, I sat here during the hearing last Friday, and I sensed some of the things that you would like to know, and when I was home over the week end, I jotted down some notes, and, if you will permit me, I would like to proceed to tell you informally, in as laymanlike language as I can, something about the picture you would like to have, and if you will grant me that permission I will be grateful to you.

Mr. BULWINKLE. We would like to have it. Go ahead.

Mr. BORINSTEIN. First of all, I want to genuinely express thanks and appreciation for the privilege of appearing before this honorable committee of Congress, because I happen to be a small businessman, and therefore I feel that I am especially appreciative of what this committee is trying to do for all business.

May I please, for the purpose of background, say to you that I was drafted for this position. It was first suggested to me in the latter part of July. I was then close to 60 years of age. Our country was not at war, and like a lot of other men of that age who liked the comforts of home and the joy of their friendships, I did not want to come.

Furthermore, my physician, Dr. Robert Moore—I think Congressman Halleck knows he is one of the outstanding medical men in Indiana—told me not to come, and finally said if I did come, I should not spend more than 3 days a week at the job.

When I came over here, I stated all of my connections before I ever started in, my business connections, and I made it clear that I was a member of the City Planning and Zoning Board of Indianapolis, and a member of the Red Cross executive committee, Chapter of Indianapolis; that I was a member of the board of the Indianapolis Chamber of Commerce and a member of the board of the Indiana State Chamber of Commerce, and treasurer of the Indiana State Chamber of Commerce; that I was on the advisory board of the Salvation Army, and was director of an orphan home, and that I was also president of the Institute of Scrap Iron and Steel.

I explained I had been very active for years in all of those things except the Institute, and I would not give up those activities that had gone over a period of years, and if there was any reason why I was not appropriately fitted for this job, I would go back home. It was not the first trip I had made to Washington at my own expense; and with regard to the presidency of the national institute, I said this—it is an organization for the scrap-iron industry, that the office of president is purely an empty one, just a nominal one, that the convention at Baltimore last January had complimented me because I, as representing the smaller or the middle-class type of membership, as it then was the middle of August, I would like to turn that office back to the convention, which was to meet in the early part of January, and let them elect anybody they wanted. There is no salary of any kind connected with that office, and there are no expenses paid. Any time I went anywhere in connection with that office I paid my own traveling expenses.

So, I started in the middle of August. Now, before that time I had been over to Washington 10 or 12 times at my own expense, at the request of O. P. A. and O. P. M. When O. P. A. was then O. P. A. C. S. and was working on a price schedule, Mr. France conferred with a small committee representing the scrap-iron industry, and then on a separate day, with a small committee representing consumers; he wanted to do as good job and as fair job as he knew how, and he was trying to get the viewpoint of the two parties involved. I think I came over two or three times to confer with regard to that schedule. Then I came over two or three times beginning in January 1941, at the request of O. P. M., with regard to procurement and flow of scrap iron and steel.

You know this concern about scrap is not just as of January 1942. There was just as much concern in January 1941. This is nothing new. I had several conferences with regard to the stimulation of the flow of scrap and in May 1941, O. P. M. appointed an advisory committee on scrap with regard to stimulating the flow of scrap. That advisory committee consisted of three or four men from the scrap industry and three or four men from the consuming industry, and Robert Wolcott, president of Luken Steel, Coatesville, Pa., was the chairman of that advisory committee, and we had two or three meetings, and I remember particularly one hot day in June, when we finished a report, about midnight in the Raleigh Hotel, of the combined thought of these two parties involved—the consuming and the supplier—section that would be beneficial in stimulating the flow of scrap.

When I came over here as consultant all my responsibility was to try—to try—to stimulate the flow of scrap. I had nothing whatever to do with policy. A great part of your testimony, gentlemen, last Friday—and I was really surprised to find that you folks had the grasp you had about scrap—the greatest part of the discussion last Friday did not concern my section at all. It referred to the scrap in the homes and the garages, and the stores, and the utilization of the American Legion, and the Boy Scouts, and other organizations of that type, and that is what we term the national household campaign or appeal.

I had that in mind. That was the first thing I wanted to do when I got here, and that was about the first thing I was told to forget about. I was told that was not going to be in our section at all, that it was either going to be run by the Civilian Defense Committee of Mayor LaGuardia, or it was going to be run by the Bureau of Industrial Conservation.

Well, a month or so after I got here, about 3 months or so ago, I was informed that it was turned over to the Bureau of Industrial Conservation. Now, any information with regard to that tremendous amount of tonnage which is available in the homes and the barns, and the garages, and the stores, and all of that, is in a campaign that is in the hands of the Bureau of Industrial Conservation—never was for an instant since I have been here, in my hands.

Now, something was said the other day about the agricultural scrap. I would like to talk a little bit more about that later, but I want to say that we did work up a program, my section did, in regard to the farm scrap. Just when our program was completed, the farm scrap was turned over to the Bureau of Industrial Conservation. We never had a chance to try to administer our program at all. I do not know what has happened with regard to it.

Mr. BULWINKLE. I do not want to interrupt you, but who is the Director of the Bureau of Industrial Conservation?

Mr. BORINSTEIN. A very capable gentleman, Mr. Lessing Rosenwald, who at one time was head of Sears, Roebuck, whose assistant is Mr. Paul Cabot, of Massachusetts, also a very fine gentleman.

Now, we did have charge of the auto-wrecking campaign. I will tell you about that as we go along. That was also turned over to the Bureau of Conservation. I do not think there is any commodity in the universe that is less understood than scrap. I think the aver-

age individual thinks scrap is scrap, thinks there is just one grade of scrap, and that all you have to do is to get it and load it and ship it, and that is all there is to it.

Scrap is either the toll taken by obsolescence, or it is the byproduct of metal working processes. Contrary to rather wide misconception, scrap is not a product in itself. Scrap is any raw material.

Now, I am talking of ferrous only. Scrap is any raw material—anything of iron or steel, conforming to some 75 Government specifications, that is gathered and prepared and marketed at the mills and the foundries. Scrap goes into the blast furnace to make pig iron. It goes into the open hearth, and the electric furnace to make steel. It goes into the cupolas at the foundries to make castings.

Mr. HALLECK. In what percentage would ore, if I might intervene, or do you have that in your statement?

Mr. BORINSTEIN. I may have that. I think I can give you that a little later, Mr. Halleck.

Mr. HALLECK. All right.

Mr. BORINSTEIN. Now, steel production is given in terms of ingots, the yield of finished steel, such as plates, and bars, and sheet and pipe, and rods, and wire—any new steel is 70 to 75 percent of that tonnage of ingots.

Now, the other 25 to 30 percent is scrap, the scrap that is made in the operation at the plants, and that, gentlemen, is what is called home scrap. You probably have noted that term, as you read these manuals here, that is what it is termed "home scrap," and it is sometimes also, but not as often, referred to as prompt, prompt scrap because it is available for immediate remelting.

Now, purchased scrap covers all the other kind of scrap, except home scrap. Purchased scrap includes that which comes from the railroads and the industrial plants, and the auto-wrecking yards, and the farms and the scrap yards, and abandoned steel-streetcar rails and abandoned bridges, mines and quarries, and all that kind of material, and also includes the scrap which is collected by the peddlers and the collectors.

So we have the two kinds of scrap, that which is called home and that which is called purchased.

Now, the consumption of scrap breaks down into 54 percent home and 46 percent purchased. There is more home scrap produced in this country than there is purchased scrap.

Now, in 1941—I think one of you gentlemen wanted to know this the other day—in 1941 the total consumption of scrap in this country was 60,000,000 tons, breaking down roughly into 32,400,000 tons of home scrap and 27,600,000 tons of purchased scrap—the open-hearth furnaces consumed 75 percent of all scrap and the blast furnaces, foundries, and other users, 25 percent.

In 1940—and I think one of you gentlemen wanted to know that—in 1940 a total of 46½ million tons of scrap, both home and purchased, were consumed.

In the first 7 months of 1941, there was more scrap consumed in this country than in the entire year 1940. The 27,600,000 tons of purchased scrap, which was marketed by the scrap industry in 1941, is the greatest tonnage ever recorded in any one year in this country.

Now, in addition to that, 800,000 tons of scrap were exported under Government control and license last year to the United Kingdom and the Western Hemisphere.

Now, steel production, according to figures released last week, was, I think 97.7 percent of the capacity operation, and a drop of only one-tenth of 1 percent from the previous week, coming right on the heels of subzero temperatures throughout the entire northern part of the Nation—the coldest weather we have had in several years.

Of course, I do not have to tell you gentlemen, I suppose, when you were younger you often tried to pick up a piece of scrap iron in freezing weather. You know what the result was.

Mr. HALLECK. Mr. Borinstein, might I interrupt you at that point?

Mr. BORINSTEIN. Yes.

Mr. HALLECK. I have wondered about this, as a part of the over-all problem that is before us, because what we want to do, and I am sure what you want to do, is to get this scrap in to the consumers so we can carry on our war effort.

Mr. BORINSTEIN. That is right.

Mr. HALLECK. Do high prices generally in our economy tend to restrict the normal flow of this purchased scrap as you call it, into the channels of trade?

Mr. BORINSTEIN. No, no, I do not think the—

Mr. HALLECK. In other words, when times are hard, are the farmers and the home owners and the kids, what have you—because I have always sold a little junk myself as a kid—

Mr. BORINSTEIN. In all my approaches with the O. P. A., and they will tell you, Mr. Bishop, with whom I conferred during 8 months, and Mr. France, who testified the other day, they will tell you in all my approaches I never considered the price to the man at the top. I think that the O. P. A. scheduled price at the top is very fair, and O. P. A. has tried to make it fair. All my concern was that nothing should be done that would make the earning capacity of the peddler, the collector, at the origin source so small that he would be driven out of that type of work, because there are thousands and thousands of these peddlers who have quit collecting junk because they could go into defense industries or other types of work in their communities and make more money than they could by going out with a "jalopy" and collecting junk.

Now, that was my only concern, because these peddlers do collect and are responsible for a tremendous amount of scrap in a year's time.

Mr. HALLECK. Very well.

Mr. BORINSTEIN. Now, I merely wanted to express the thought scrap is entirely an outdoor industry, and when you have adverse weather conditions the collection and the preparation and the flow of scrap naturally is hampered.

Now, with regard to the shut-down of furnaces. It is true that some furnaces have been shut down.

Mr. BULWINKLE. How many?

Mr. BORINSTEIN. In the country, I do not know offhand. The reasons have and have not been a lack of scrap. Take, for instance, the time of the coal strike, pig iron ran short so a larger charge of scrap was used in the furnace, and that caused scrap dislocation.

Now, if a blast furnace or two goes down for repair, as they must, there is a reduction in the output of pig and, again, the furnaces begin to charge more scrap iron, and that causes dislocation.

Pig iron and scrap are the principal secondary ferrous materials of the iron and steel industry, and within limits are interchangeable for steel manufacture.

Now, as there has been insufficient pig to go around there has been more and more demand upon scrap. There have been one or two large consumers in Pennsylvania, I think, who had not bought a pound of scrap iron in years. All of a sudden, in 1941, they came into the market for a very substantial tonnage, and that caused dislocation.

No one has wanted to see any furnace shut down whatever the reason has been, but, gentlemen, insofar as I have been able to ascertain up to this date, up to this minute, no war tonnage of any consequence has been lost due to shortage of scrap.

Mr. PLOESER. Mr. Borinstein, you say no war tonnage.

Mr. BORINSTEIN. Yes.

Mr. PLOESER. This committee is interested also in the ultimate result to the small manufacturer who needs the tail end of this.

Mr. BORINSTEIN. That is my very next point.

Mr. HALL. Right there, may I break in, Mr. Chairman?

Mr. BULWINKLE. Yes.

Mr. HALL. The furnaces that we were referring to Mr. Borinstein were particularly 12 furnaces in Youngstown, Ohio, which, Congressman, Mr. Kerwin and Mr. Miller both testified were shut down because of lack of scrap, if my recollection is correct.

Mr. BORINSTEIN. Well, I did not know that you would want me to go into that, but at the time those 12 furnaces were shut down, I think those two big companies in Youngstown were on about 70 or 71 or 72 percent war effort, so in proportion to the total number of furnaces they have, those big companies were not in any worse condition than some little fellow who only employed a small number of men and who could not get all the material he needed to operate.

Mr. HALL. I know; but I don't care whether there is only one furnace shut down, if we can keep that furnace going, we should do it.

Mr. BORINSTEIN. Sure. I say we want to do that.

Mr. KELLY. Mr. Borinstein, on that point, when the furnace is shut down for repairs, how long is it out?

Mr. BORINSTEIN. Well, I do not know. I am not—I suppose the time might vary depending on the amount of repairs, but if there are any technical questions, I am not a technical man.

Mr. KELLY. Well, they have got to reline that whole furnace with brick.

Mr. BORINSTEIN. Yes. I am sorry. If we can get you to talk to a man over here, he can give you all that. I do not know whether Mr. Vigor is here—there he sits. He can tell you anything you want to know about that—Mr. Vigor, who is in charge of raw materials.

Mr. KELLY. I would like to find out what is the average time of shut-down of a furnace.

Mr. Vigor. To shut down a furnace, periodically shut down for repairs, depends entirely, of course, upon the nature of the repairs.

It may be only 3 days or 10 days or 2 weeks. Just making a guess, I would say that the average shut-down is a week.

Mr. KELLY. Well, that would not have any material change in shutting these furnaces down. That is what I wanted to find out.

Mr. BULWINKLE. Go ahead, Mr. Borinstein.

Mr. BORINSTEIN. All right.

Then, Mr. Chairman, I would like to talk a little about this priority N-24 that you have been asking about; that is, allocation.

In October 1941 that order was issued by O. P. M., which delegated to our section the duty of allocating scrap. Get this straight, that order did not contemplate complete cut-off, as was the case, for instance, with automobiles and rubber tires. All that we were told to do was that it would be our duty to protect certain holders or suppliers or processors or producers of scrap to ship certain grades to certain consumers, and it was made very clear to us and to the industry that the spirit of that order did not contemplate that consumers of scrap were to stop using their own initiative and their own organizations and their own efforts to go out and continue to get scrap.

They were supposed to do all that, just as they had always done, and we were told that it would be our duty to simply try and supply them with the difference in tonnage between what they were able to get as a result of their own initiative and efforts, and what they needed.

But a great many of these consumers immediately got a different impression. They thought all they had to do was to lean back in their swivel chair, to stop making any effort on their own part to get scrap, and just call upon O. P. M. to furnish them 100 percent of the scrap.

Some did not even anticipate sufficiently their scrap requirements. They let their scrap go down to such a low point that the furnaces were shut down when they came and asked for scrap.

Now, let it be very clearly understood, that the issuance of an allocation order does not mean that automatically and simultaneously the scrap allocated arrives at the furnace. It requires a reasonable time for allocated scrap to arrive. For instance, if an order is given to an industry for 50 cars, and that industry is only producing a car or a car and a half a day, it is going to take 30 to 40 days for that industry to produce the scrap. Of course, it ships every day what it makes, but it takes time for the scrap to be produced. That is the same theory exactly with a dealer. If he is given an order for 50 cars, he has got to get this scrap in, he has got to torch it, prepare it, shear it, load it and get it out, and it takes a reasonable length of time to do that.

Now, as Mr. Miller told you, we have required in every instance full information in affidavit form as to current inventory position of scrap, and pig, and the percentage of operation in war work, and so forth, and we did that particularly because we felt we had no right to deprive some little fellow of scrap who was not making war material, if it might be that without the full information we would parcel out to some big fellow more scrap than his own percentage of war work entitled him to have.

Now, gentlemen, in addition to direct contacts with our section many of these consumers have called upon their Senator, upon Members of your own honorable body and upon labor unions and labor organizations, and we have heard from a lot of other sources, heard

from all with regard to allocating scrap, and I will say this, and I think I am pretty nearly right, that if there is a tougher, and a more headachy job in Washington than the allocation of scrap iron and steel, I would like to know what that job is.

Everyone who has ever called on me for an allocation has made it very clear to me that this war effort would fail if he did not get 100 percent of the scrap that he asked for. He has made it very emphatically clear to me that the entire world, apparently, was revolving around his plant, and selfishly he was interested only in himself and he did not give a snap whether any other consumer got scrap or not—he wanted 100 percent, whether he was on 100 percent war effort or not.

So it has been no picnic to allocate scrap, and I want to say this to you, gentlemen, who are interested in small business, that the size of the party who has come into our office asking for an allocation has not made one particle of difference; whether he has been big or small, he has been accorded exactly the same uniform courtesy and fairness, he has gotten exactly what his figures justified that he should have with utmost impartiality.

I am willing to be the first to admit that this job of allocation has not been perfect, but in view of the fact that in 1941 the greatest production of new steel was reported in this country, and the largest tonnage of market scrap in the history of this country, I think the record will show that a mighty good job was done. It has been hard, it has been difficult, it has been necessary to shuffle this scrap around. The best possible has always been done in the fairest possible way, and always with the thought in mind that we do not have a moral right to strangle some hundreds of small foundries and small mills that for the time being had very little or no war work, and thereby throw thousands of men out of work and disrupt whole communities.

It was also our thought that sooner or later in expansion of the war effort they would get some war work, too, so their organization should be kept intact so that when they did get war orders they would be ready to produce without any lull.

I think the question was asked as to whether or not there is the same situation with regard to supply of scrap everywhere in the country. Well, there is not. There is dislocation. Some mills have to wait until the railroad engine switches cars of scrap into their plant every morning. Other mills are very comfortably fixed. Some consumers have months of scrap on hand, and some mills are furnishing new steel to customers only on condition that those customers send back their scrap, and not ask for any more new steel if they do not do that, and that causes cross-hauling and waste of railroad facilities, and further dislocation.

Now, always in the past the scrap industry has been one of peaks and valleys. When there has been an exceptionally busy year there has usually been a lull. During that lull the consumers and the dealers would build up their depleted inventories in scrap, but now we are going into the third successive year of capacity operation, and each year has been bigger than the one before.

Now, we are coming to a question about which there was considerable discussion Friday, and that is the question of hoarding. It is

unfortunate, and it is regrettable if there has been hoarding on the part of some scrap dealers, but there are some 10,000 scrap dealers in the United States, and the percentage of those who may have hoarded insofar as we have been able to ascertain has been very negligible.

I want to make it very emphatically clear that I feel toward those few hoarders just exactly the same as any one of you feel—no different whatsoever. But I should like to comment, if you please—and I think that you would subscribe to that same sentiment—that just because there are a few bad actors in the industry is not any reason why the entire industry should be stigmatized or condemned. There are a few bad actors in the scrap industry just as there are a few bad actors in every industry, and I do not care what it is, every industry has its few bad actors—but speaking generally, I do not think from everything I have been able to ascertain that there has been any over-all hoarding in the scrap industry. I think the vast majority of the dealers have moved their scrap just as fast as it has been possible to do so consistent with usual necessary methods of preparation.

Mr. BULWINKLE. Mr. Borinstein, do you know how much tonnage the dealers have in scrap, estimated?

Mr. BORINSTEIN. You anticipated my very next point, Mr. Chairman.

The records of the United States Bureau of Mines show that on October 31, 1940, the scrap-dealer inventory was 1,495,400 tons, and that by September 30, 1941, the last available figures of the Bureau of Mines, which we have, that the scrap, the total scrap dealer inventory of the country has been reduced to 713,538 tons.

Mr. BULWINKLE. Now, Mr. Borinstein, that report of the Bureau of Mines covered only 4,000 dealers, didn't it?

Mr. BORINSTEIN. I would like to get Mr. Ridgeway, I think he is here, and he can tell you, but I think the—I know that all did not report. I think the principal dealers did report.

Mr. BULWINKLE. Well, it was only about 4,000 yards reporting in the United States. I can tell you that.

Mr. BORINSTEIN. But I think, though, that the proportion of reduction would remain the same.

Mr. BULWINKLE. Now, then, with this you are bound to estimate that there is more than that quantity of scrap on hand in the United States, whatever the quantity is.

Mr. BORINSTEIN. Yes.

Mr. BULWINKLE. What would you recommend in order to get this scrap out at once?

Mr. BORINSTEIN. Mr. Chairman, I think it is moving pretty fast, because, if you divide whatever tonnage you have—let us just use this figure, which was the last—

Mr. HALLECK. Now, Major, did you have reference generally in the country, or in the hands of dealers?

Mr. BULWINKLE. Scrap generally in the hands of the country and in the hands of the dealer. I want you, because you have had experience in this, to give to the committee your ideas.

Mr. BORINSTEIN. That is right.

Mr. BULWINKLE. For the whole thing, and let us get it out and quit having this talk about this scrap.

Mr. BORINSTEIN. That is right.

Mr. BULWINKLE. So we can go to something else sometime.

Mr. BORINSTEIN. That is right. Now, I have got to tell you this because you take 700,000 tons of scrap and divide it among 10,000 yards.

Mr. BULWINKLE. That is only 4,000, but go ahead.

Mr. BORINSTEIN. All right. Divide it among 4,000, divide it any way you want. My average was 70 tons to the yard. Let's make it 200 tons to the yard.

Now, there are 75 different specifications, but do not think all dealers are dealers of 75 different grades, because they are not, but there are 75 grades. Let us say they grade 15, only 15 different grades. Now, if you divide 15 different grades into 200 tons, say it even was an average of 200 tons to the yard, you would have maybe half a car of each, of 15 grades. The fact that there may be 200 tons in a yard does not mean that there is enough to load even one car of any one grade. Now, the mills, the steel mills will not accept mixed cars. Every car must contain one grade of scrap. And you have just got to allow sufficient time for these yards to accumulate enough of each of those grades to make up a separate car of each of those grades.

Mr. BULWINKLE. Well, how much is necessary?

Mr. BORINSTEIN. Well, in the wintertime it takes longer.

Mr. BULWINKLE. I mean during a year, a whole year.

Mr. BORINSTEIN. I would say 30 days.

Mr. BULWINKLE. Well, you have had since last April when this thing started.

Mr. BORINSTEIN. Oh, but it has been moving, Mr. Chairman.

Mr. BULWINKLE. All right.

Mr. BORINSTEIN. It has been moving right along.

Would you be interested in knowing what the Bureau of Mines showed as to the inventory of consumers in the same period of time?

Mr. BULWINKLE. Yes.

Mr. BORINSTEIN. Well, on December 31, they showed 5,046,000 tons in the consumers, and by September 30, 1941, also the last available figure, 3,986,000 tons, a decrease of 1,042,000 in the consumers.

Now, the Bureau of Mines also shows, according to their records, that, just to show you what the operation is in a particular district, that in September of 1941, the mills in eastern Pennsylvania consumed 385,000 tons of scrap; that the stocks of the consumers in eastern Pennsylvania, as of September 30, 1941, amounted to 311,727 tons, and that the stock of prepared and unprepared scrap in the dealers' yards in this district as of September 30, 1941, was only 60,548 tons, or on that operation the dealers would have only 5 days' supply.

Since this priority was issued in October, Mr. Miller told you that he has made something like 450 to 500 allocations to big fellows and to little fellows, in every part of the United States, from coast to coast, and from the Gulf up to Minnesota, and in practically every instance the question was asked, Do you know of any accumulation of scrap in any dealer's yard or in any plant? That was so we could be helped to allocate scrap and know where it was, and almost with rare exception the answer was that they did not know, if they did know they would not be there asking for it.

Mr. BULWINKLE. Now, Mr. Borinstein, I asked you the question just now, What recommendation, if any, would you have to make to move

this scrap? You stated that it was moving. Now, is it entirely satisfactory to you and to your organization?

Mr. BORINSTEIN. Well, I would like to see scrap move as fast as possible. I do not know—I cannot make any recommendation. I am not speaking of those that may be hoarding. I am speaking of the rank and the file among the scrap yards. Unless the mills are willing to take mixed cars, I will say that these dealers just have to be allowed sufficient time to accumulate enough of every one grade.

Mr. BULWINKLE. Just for a minute; let us get the whole picture. There are other things besides the dealers. You have got two kinds of scrap all over the United States, haven't you, according to your original statement?

Mr. BORINSTEIN. That is right.

Mr. BULWINKLE. What are they, the home?

Mr. BORINSTEIN. The home and purchased.

Mr. BULWINKLE. What recommendation can you make to this committee that should be done in order to move the scrap, both home and purchased?

Mr. HALLECK. Now, do you mean, Major, from the farms and the factories?

Mr. BULWINKLE. I mean from the farms and all, until they get to the ultimate consumer. That is what we are here after.

Mr. BORINSTEIN. All right. We have nothing to do with the farm or with the household.

Mr. BULWINKLE. But you are looking after the scrap?

Mr. BORINSTEIN. No, sir. I beg your pardon.

Mr. BULWINKLE. What is your job down there?

Mr. BORINSTEIN. I am the consultant in regard to scrap, but when it comes to a campaign, if someone else is running that campaign I have nothing to do with it.

Mr. BULWINKLE. Well, as a consultant, what views can you express to this committee?

Mr. BORINSTEIN. Well, let us talk about one of the richest reservoirs.

Mr. BULWINKLE. I want to get the picture as to the whole thing in the United States.

Mr. BORINSTEIN. Well, resort to confiscation where it will not move otherwise. We have that power now. We never had it until just very, very recently.

Mr. KELLY. In the month of May is when that power was passed.

Mr. BORINSTEIN. What did you say?

Mr. KELLY. In the month of May.

Mr. BORINSTEIN. Yes; it was delegated to the President in May, but it was not delegated to O. P. M. until the middle of December, and then it took several weeks after that for the attorneys to work out an orderly procedure. So that last week was the first time we had the right to confiscate any scrap and we immediately took steps to confiscate some two to three thousand old automobiles up in New York that we heard were not being moved.

Mr. HALLECK. Can you guarantee, Mr. Borinstein, if the scrap moves into the channels of trade generally represented in the scrap industry, that it will go expeditiously to the consumers who need it?

Mr. BORINSTEIN. Oh, yes; it is my honest opinion that in the vast majority of cases it will move just as fast as it is prepared.

Mr. BULWINKLE. Well, have you at any time, or your organization, or anyone down there, prepared any plan about this whole scrap business?

Mr. BORINSTEIN. Oh, yes; sure. Let me tell you about the auto wrecking, for instance. May I?

Mr. BULWINKLE. Well, you just mentioned 2,000 or more.

Mr. BORINSTEIN. That was just one lot. There are 4,000,000 tons of scrap, we think, available in these auto wrecking—let me make it very clear that most of the letters we have received complaining with regard to hoarding of scrap have been in regard to these old auto cemeteries and not with regard to scrap yards.

We have had hundreds of letters about these old auto cemeteries. Now, the auto-wrecking industry is separate and aside from the scrap industry—and has nothing whatever to do with the scrap industry. The only contact the auto wrecker has with a scrap man is when he wrecks a number of cars and wants to sell his scrap. We knew that there was this tonnage of scrap available in the auto-wrecking field, and at that time when I came in the middle of August, that was another thing that I immediately got under way, and some of us executives went into some 21 different States and organized those States for auto wrecking to stimulate the flow of scrap from these cemeteries.

I will give you a typical case. For instance, in Indiana, Mr. Halleck, we had a meeting at the Claypool Hotel. We had some 150 auto wreckers from all over Indiana there, and the meeting was addressed by Governor Schricker; by Mayor Sullivan, of Indianapolis; by Colonel Drysdale, of Fort Benjamin Harrison; by Mr. R. C. Allen, who was at that time head of the Raw Materials Department; and by myself.

There was a lot of enthusiasm worked up. They promised to wreck their cars, and speed shipment of the scrap. They formed their State organization from among their own industry.

Mr. HALLECK. When did you hold that meeting?

Mr. BORINSTEIN. What did you say?

Mr. HALLECK. When did you hold that meeting? Do you remember about when it was?

Mr. BORINSTEIN. I think it was some time in October, or the latter part of September. I have forgotten just when, but at any rate, when we got back to Washington we had only the mail to use and the telephone to keep after the wreckers, and that applied in every State. We had no field force at all. We could not even hire one man to follow up, but we knew the scrap was there. We could not requisition it; it was easy enough to say, "Why didn't you go out and commandeer these cars?" We did not have the right. We did not have that right until last week, when the attorneys finally worked out the procedure.

Now that the authority is there, Mr. Chairman, I think that there will be no difficulty in moving thousands and thousands and thousands of these old cars all over the United States.

Mr. BULWINKLE. Well, do you not think that your organization should prepare some plan to move it?

Mr. BORINSTEIN. Well, it is, just now.

Mr. BULWINKLE. We are in war.

Mr. BORINSTEIN. Yes, we are.

Mr. BULWINKLE. Not just sitting around here to wait on somebody to do something.

Mr. BORINSTEIN. Well, that campaign has just been turned over to the Bureau of Industrial Conservation.

Mr. BULWINKLE. My God, we want something else besides just turning these things over from one side to another and getting nowhere.

Mr. BORINSTEIN. I have nothing to do with policy. When there is anything to be turned over, that is just out of my hands. I am just a private in the ranks.

Mr. BULWINKLE. I know, but you could recommend to somebody else.

Mr. BORINSTEIN. Well, don't you think I did?

Mr. BULWINKLE. I don't know.

Mr. BORINSTEIN. Well, I will tell you I did.

Now, with regard to the agriculture program. There is a lot of scrap—we do not know how much, maybe a million and a half tons. Now, back in August, Mr. Allen and I went over to see the Assistant Secretary of Agriculture, Hill. He is from Texas. He is a fine gentleman. He had a sympathetic understanding, and he called in his publicity man, and the man in charge of the county agents, and the 4-H, and the women's auxiliaries, to help work out a plan to get the scrap moving from the farm. It took about 5 or 6 weeks to work out the program. The question of price was mentioned in the letter we prepared, and the Department of Agriculture wanted it approved by O. P. A. and it was submitted, and with some changes that Dr. Galbraith made, the letter was approved and we got everything out.

Now, we even had a map prepared, showing what the scrap was worth in every State of the United States, so the farmer would know about what he should get. This letter, which went to the county agents, was addressed to Secretary Wickard. We said, now, you have a farm in Delphi, Ind., and your basing point is Kokomo, Ind. I do not know whether these men know anything about Indiana or not, but you do, Mr. Halleck.

We figured out what Secretary Wickard could get for his scrap on his farm. It was all very comprehensively gotten up, and I have lived in Indiana all my life, and among the farmers, and I have a lot of contracts with them, and I say there is no more patriotic group in the country, but it was my thinking, if we could get this group in the country, and it was my thinking, if we would get this story across through the program we mailed, through the radio program of the Department of Agriculture, and through the clinics of the county agents, that the scrap would move from the farms. Well, just about the time we got the program completed, Mr. Chairman, the order came to turn it over to the Bureau of Industrial Conservation.

Mr. BULWINKLE. Have you got a copy of that program?

Mr. BORINSTEIN. Yes, sir.

Mr. BULWINKLE. Put it in the record, will you?

Mr. BORINSTEIN. I will get it over to you.

Now, about scrap. There is—I think Congressman Fitzgerald, the other day, talked about this heavy stuff. We estimate there is half a million tons of scrap in the mines. We have been after them to move that scrap, and the reply comes back that they are operating, that

their operating schedule is so heavy they could take this scrap out only on Saturday and Sunday, that they have got to pay their men time and a half on Saturday, and double time on Sunday, and that the cost of taking the scrap out is more than the dealers can pay them because the dealers can pay only in accord with the O. P. A. schedule. It is estimated there is a half million tons available.

Mr. BULWINKLE. What plan did you make to move that?

Mr. BORINSTEIN. No plan. We cannot interfere with hours and wages. We have no jurisdiction there.

Mr. BULWINKLE. Well, have you made any recommendations to anyone?

Mr. BORINSTEIN. Yes. I would like—I did recommend or suggest that these men be permitted on Saturdays and Sundays to take this scrap out only, no coal operation, just the scrap out at the regular wages, not time and a half and double time, but it was turned down.

Oh, just give me the authority to do a lot of things—

Mr. PLOESER. Who turned it down, Mr. Borinstein?

Mr. BORINSTEIN. Why, I think it went up to Mr. Lewis.

Mr. BULWINKLE. Which Mr. Lewis?

Mr. BORINSTEIN. John L.

Mr. BULWINKLE. And he turned it down?

Mr. BORINSTEIN. Yes.

Mr. BULWINKLE. Well, do you know that he did?

Mr. BORINSTEIN. Well, I would like to check that—that is what I was told.

Mr. BULWINKLE. You check it so we can correct your record.

Mr. BORINSTEIN. All right. I don't want to make that definite—that is what was told to me.

Now, I get a lot of letters about abandoned street-car rails. Last August we worked out a plan with the Federal Government by which the Federal Government agreed to furnish W. P. A. labor to take up the rails and pay about 75 percent of the cost of resurfacing and of repairing the streets. There have been some localities over the country that have taken these rails up, but a great many cities that have got abandoned rails in their streets—of course, these rails have to be owned by the municipalities, not by any private company—have not been able to move them because they say they had nothing set up in their 1941 budget, when it was made earlier in the year, to take care of that kind of expenditure, or that they were restricted by their bond issue as to the amount of indebtedness, and so forth.

Now, there are up to half a million tons, perhaps, of those rails that can be moved. I think the Government now is prepared or may possibly pay the full amount of repairing those streets.

Now, you say to me, Why don't you move faster? It took me over—it did not take me—but for 4 months I worked on dismantling that abandoned Atlantic Avenue elevation in Boston, that I think every tourist through the New England States wrote me a letter about last August and September. Now, it was up in the Supreme Court of Massachusetts. One of your own distinguished Members of Congress, Congressman Elliott, helped out very substantially, and the Supreme Court finally has ordered that dismantled—some 25,000 tons.

All right. If anyone thinks it should not have taken that length of time, what could we do about it? Let us go to the other side of the country, the big bridge at Tacoma, Wash.—

Mr. BULWINKLE. But your entire organization was not on that particular thing all that time, was it?

Mr. BORINSTEIN. Oh, I worked on that, sure. I will never forget about it. I went to sleep every night thinking about it.

Mr. BULWINKLE. But you had other things at the same time to work on?

Mr. BORINSTEIN. Yes.

Mr. BULWINKLE. You did not want to leave the impression with the committee that you worked on it alone for several months?

Mr. BORINSTEIN. Oh, no; I had other things. As a result of wear and tear from these other things I had positive orders when I went home sick last November, from my doctor, that I had to quit, and I was planning to quit, and if we had not gotten into war I would not be here today unless you had called me, and it would have been a pleasure to come before you.

Now, you take, among other things, take that big collapsed bridge at Tacoma. It was going to be dropped into the water. Do you know that it took us about 4 weeks to prevent that from happening?

Mr. HALLECK. Do you mean they were just going to let her go down?

Mr. BORINSTEIN. Yes; dropped right down in the water; and there are a lot of bridges in this country, going across streams, which connect two little towns, and there is a dispute as to who owns them, so we could not do a thing with them.

There are a lot of bridges abandoned in the country which have attached to them a water line or a gas line, with some perpetual contract to bind them, and the community cannot take the bridge down. That is potential scrap iron and steel. We have tried to move all that, but we had no authority. Now we are at war. The Government, no doubt, is going to do something about it, and this type of scrap will become immediately available.

Mr. BULWINKLE. We are not blaming you, Mr. Borinstein.

Mr. BORINSTEIN. Oh, I know. I have nothing to defend. I am trying to give you a picture. You want to know about these things, don't you?

Mr. BULWINKLE. What we are trying to find out, is there anything wrong, and what is wrong, and who is to blame.

Mr. HALLECK. I think we might all agree you have given us some interesting facts which will be very helpful to us in working out this problem.

Mr. BORINSTEIN. What do you think about this? Take Detroit. Detroit was always a plus point. By that I mean it produced much more scrap than it consumed. Detroit was perhaps the biggest production point of scrap, on account of the automotive industry, in the world. Well, on account of restriction in auto manufacture, and the present conversion, Detroit has become a minus point, so instead of shipping scrap out of Detroit, as has always been the case, today we are allocating scrap from other points into Detroit.

Now, that is dislocation. Of course, as soon as they come into war production, there is going to be a lot of scrap, but of a different kind. I think it was Congressman Fitzgerald who talked about the little foundries that needed cast scrap. There is a lot of soil pipe, gentlemen, made out of cast iron. If those manufacturers would begin to use clay, or concrete, or some other substitute, considerable cast iron

would become available for the little foundries—somebody spoke here about tin cans, incinerated tin cans. If you had suggested to a consumer in January a year ago to use incinerated tin cans, he would have shot you almost, but today he is using it and they have had pretty good results with it, some of them have, but it has taken months to educate people they have got to begin to use substitutes.

They always want the cream of the crop. They wanted the A-1 scrap, because, of course, it was easier to operate that way. I am not criticizing these consumers. They have been fine in most respects, but they hate to get around to the substitution of these cheaper grades. Well, they have just had to do it, and there should be a great deal more of it.

Now, I am almost done, but here is something to think about. It is paradoxical. Today we never needed scrap more in this country, and yet a great many people that are patriotic are loathe to move it. Take the railroads. They have been splendid, but today, on account of the great transportation demands and the difficulty in getting new equipment, they are repairing hundreds of cars and locomotives that in normal times they would have junked, so we do not get that scrap. We get a lot of other scrap from them, but they are holding on to a lot of this old equipment they are repairing, and which normally they would not.

Take a lot of abandoned structures with steel in them, ordinarily they would have been demolished, but today the owners anticipate a need for them, so they are fixing them up, and we do not get that scrap.

Mr. BULWINKLE. Mr. Borinstein, have you had much complaint from the consumers that the dealers refused to sell or wanted higher prices than are fixed?

Mr. BORINSTEIN. No, sir; I have had practically none. I talked last Friday with Mr. Wolcott, president of Luken Steel. He was in my office; I talked to him about this very thing. Why, he said he would be glad to come over here and testify. I do not know where this impression got out.

Mr. BULWINKLE. Well, of course, you realize the war is a breeder of rumors as well as other things.

Mr. BORINSTEIN. Oh, yes.

Mr. BULWINKLE. You can have all kinds of rumors that light on us.

Mr. BORINSTEIN. Well, we were just as concerned about this scrap a year ago as we are today. One-twelfth of this year is almost gone. We are still going at a record-breaking pace. We all of us have got faith in this country and our people and ourselves, and I am going to be the last one to admit that we are not going to have enough scrap to keep particularly our war effort going. That I can say, that there is enough scrap for that, and we want to keep as much of the civilian usage of scrap.

Mr. BULWINKLE. Mr. Hall, do you want to ask any questions?

Mr. HALL. No questions.

Mr. BULWINKLE. Mr. Halleck?

Mr. HALLECK. Of course, I have a little pride, as a fellow Hoosier, in Mr. Borinstein, and I want to commend you for myself, Mr. Borinstein, for the frankness and clarity of your statement. I

think you have been helpful, and, as far as I am concerned, the thing we are interested in is getting scrap in and seeing that it moves into the industry and into the hands of the people that need it.

If that happens, certainly there could be no complaint.

Mr. BORINSTEIN. I thank you very much, Congressman Halleck, and I want to tell you that our section is going to do its very best to move every possible pound of scrap.

Mr. HALLECK. Just one question, Major, if I might.

Mr. BULWINKLE. Yes.

Mr. HALLECK. Now, you have referred to the fact that your section worked on some of these brokers, looking to the stimulation of the flow of scrap into the channels of trade. Now, then, since that time, that duty, or obligation, or job has been assigned to the Bureau of Industrial Conservation. Was there any period of time in there when there was a twilight zone, when there was a division of authority, or lack of certainty as to whose responsibility that was?

Mr. BORINSTEIN. No. I think it automatically changed over. I want to say this, that the reason the change was made is that the Bureau of Industrial Conservation, as you know, is very amply budgeted. They have plenty of money to establish a very big personnel over the country, where our section did not have any at all. They proposed to organize every State in the country, State by State, with a very wide representation there, and, of course, it was felt that on this kind of scrap, which had not arrived in the scrap yard, what we refer to as dormant scrap, the scrap on the farm, in the auto wreckers, and in the homes, garages, and so forth, that the Bureau of Industrial Conservation, because they have this very ample manpower, could do the job better than we could. We had no manpower.

Did I answer your question?

Mr. HALLECK. Yes.

Mr. BORINSTEIN. But there wasn't any lull between the two.

Mr. HALLECK. That is all.

Mr. BULWINKLE. All right, sir. If you have anything else you want to put in the record, you may.

Mr. BORINSTEIN. Thank you very much.

Mr. BULWINKLE. Mr. Fogarty has a statement to put in the record. Congressman Fogarty, of Rhode Island.

STATEMENT OF JOHN E. FOGARTY, REPRESENTATIVE IN CONGRESS, SECOND CONGRESSIONAL DISTRICT, RHODE ISLAND

Mr. FOGARTY. I am John E. Fogarty, of the Second District, Rhode Island. I just want to extend my remarks in the record.

(The extension of the remarks of Hon. John E. Fogarty, Representative in Congress from the Second District of Rhode Island, is as follows:)

Mr. FOGARTY. There are thousands of people walking the streets today, in the midst of a great glamor for war workers. The number is increasing daily, and we are facing, once again, the prospect of hunger amid plenty.

I would be wasting your time, as well as my own, if I tried to go into the arguments about the part small business plays in the peacetime activities of the country. You men have heard the arguments over and over again. You have heard all sorts of suggestions about remedying the situation. What can be done remains to be seen, but one thing is sure, something must be done and done soon.

We have a war to win, that's true. But we also have to keep in mind the fact that when the war is finished—please God, may it be soon—we will have a peace to win.

All production now must be predicated on the winning of that war, and non-essentials will have to take last place. But, in my opinion, there is a place for the small businessman in the production of war materials.

We all know that the little fellow hasn't got the organization to compete favorably with big business. Special provision must be made for him. It is my belief that it could be determined, and in mighty short order, just what type of material the small businessman could turn out.

Maybe one group could produce parts for guns, gas masks, uniforms, etc. Maybe another group couldn't produce very much but could be used for assembling these various parts.

Then set that work aside for small business. The little fellow would be competing with others in his class, and we wouldn't see some little fellow like the Liberty Tool & Gage Works in Providence trying to compete with Brown & Sharpe; and, besides keeping the little fellow going, we'll actually help speed things up.

An outstanding example of the plight of employees of small business is apparent to everyone in a look at the automobile dealers' situation. Most of these employees are old hands at that game. They've raised families, bought homes and are paying off mortgages, are sending their children through school, and the like. Now they are faced with complete collapse. If they are to find work, they must tear up their roots and go to another community where there is defense production; then try to learn some other trade. You know what their chances will be—some of them are too old to even undertake such a task. We've got to help them.

Someone will say that this might cost the country a little more money—that may well be true, but it will be money well spent. We will be taking care of the lives at home, and encouraging everyone to do more and more to help win the war, and that attitude in the mind of the public is very important.

Mr. BULWINKLE. There are some telegrams and a letter here which may be made a part of the record.

(The documents are as follows:)

MARION, OHIO, January 26, 1942.

Congressman WRIGHT PATMAN,
Washington, D. C.:

We are an independent tire dealer selling new tires and doing tire treading.

The independent tire dealers are in a much better position to handle the serious problems that are with the tire industry today.

We should have immediate relief in regard to more rubber being allocated for tire treading on both passenger and truck tires. Since the average man, salesman, and the man working in the shop that has to depend on his car to get to work and make his living with cannot under any condition buy new tires, something should be done to help him. We are not able to take care of these people because the restriction on rubber for treading is not large enough.

The independent tire dealers have 90 percent of the repair equipment and we are terribly handicapped for material.

Additional tire treading and repairing equipment should only be sold to the independent, because they are already set up and only need more material.

The big interests are trying to muscle in on this business which has already been established by the independent, who are still able to handle the situation with a little extra equipment for both defense and civilian use.

The large interests are receiving more camelback than the independents.

A definite amount of passenger camelback should be made each month.

Thanking you for all the consideration shown the independent in the past, I remain,

HARRUFF TIRE STORE,
DALLAS HARRUFF, Manager.

OAKLAND, CALIF., January 26, 1942.

Congressman WRIGHT PATMAN,
Washington, D. C.:

As an independent tire dealer representing a livelihood for 12 employees we solicit your support in any way possible that independent tire dealers be given immediate relief without injury to rubber-conservation plan that manufacturers retail outlet be eliminated from retreading field, which has been 90 percent independent field, and eliminated from tire-rationing program so that independent dealers may retain their place in the rubber world, a control on recapping equipment so that large interests cannot muscle in on recapping field to the elimination of independent dealers.

BROADWAY TIRE CO.,
By GEORGE KNAPP.

GREAT FALLS, MONT., January 27, 1942.

Congressman WRIGHT PATMAN,
House Office Building, Washington, D. C.:

We are fighting for American democracy, not for vested interests, chain stores, and monopolies. The independent dealer in any line is the backbone of democracy. Independent tire dealers do 90 percent of the tire repairing. Major oil companies, tire manufacturers, and chain stores are now trying to muscle in on recapping and repairing as a side line. This accomplished would necessarily reduce quality of work and cause unnecessary loss of life due to poor work. There aren't enough tire men now who do proper repair work. These good men are nearly all employed by independent tire dealers. No additional retreading or repair equipment should be sold to any but independent dealers. Many major rubber companies refuse to take orders for needed materials. They see that their own stores are furnished with materials and brag that they are putting in huge shons. Can't something be done about fair distribution of materials. Isn't a small independent entitled to his share of materials along with large interests? Montana farmers need rubber on their passenger cars. Can't we get passenger car camel back so we can help them feed our forces. Only independent dealers should be allowed to ration new and recapped tires. Big organizations have other items for sale. We independents must survive to insure a democratic way of life.

NEITSON SCOTT TIRE CO.,
HUGO A. NELSON.

AMERICUS, GA., January 26, 1942.

Congressman WRIGHT PATMAN,
House Office Building:

As independent tire dealers in a community with 5,000 car and truck registrations, we are equipped to retread and repair tires but have no camel-back stock on hand. Request you use your influence to give independent tire dealers and retreaders immediate relief. Over 90 percent of tire repairing and retreading equipment in hands of independent tire dealers. Very urgent these independents receive material to continue operation and keep tires needed for defense and civilian uses in operation. There is a great need for equitable allocation of camel back as large interests are holding this material for themselves and not shipping to independent dealers. Also urge increase amount of passenger tire camel back be manufactured.

LOTT BROTHERS.

PHILADELPHIA, PA., January 26, 1942.

Hon. WRIGHT PATMAN,
House Office Building:

Immediate relief necessary for our firm as independent dealer. In order to continue in business and maintain necessary conservation of rubber through competent service of repair and retread must have adequate allocation of camel back. Respectfully and urgently request your interest in behalf our not being forced to close down this most necessary service for lack of material.

CARNELL & BRADBURN,
JAMES J. BRADBURN.

SCHUYLER, NEBR., *January 26, 1942.*

Congressman WRIGHT PATMAN,
House Office Building:

Would appreciate some relief, as independent tire dealers have some A-3 orders but unable to get manufacturer to ship. Having trouble to get tires retreaded.

SCHUYLER OIL CO.
 ADOLPH POKORNY.

 PORTLAND, OREG., *January 26, 1942.*

Congressman WRIGHT PATMAN,
Washington, D. C.:

Independent dealers pioneered recapping business. Believe big interests now trying regulate prices and manufacture of grades camel back to their advantage. Believe there is need more equitable allocation of camelback so all dealers receive the same treatment. Necessary increase allotment passenger tire camel back so defense workers and automobiles necessary maintain economic stability can obtain tires. Independent tire dealers who are dependent upon tire sales should be declared only rationers of new tires as big organizations have other things to sell. Independent tire dealers, not controlled by large interests, are entitled immediate relief. Your consideration and assistance will be appreciated.

PECK BROS.,
 E. W. PECK.

 MIDDLETOWN, OHIO, *January 26, 1942.*

Congressman WRIGHT PATMAN,
Washington, D. C.:

Being an independent tire dealer and knowing that probably 90 percent of all repairing equipment is in the hands of the independent, believe him best qualified to inspect and repair tires to conserve available rubber. We urge that you use your influence to have the independent tire dealer declared the only rationer of new tires, whereas the large organizations have other things to sell.

The trading industry was established by the independent, and we believe he is entirely capable and equipped to handle the trading for civilian and defense needs if he can be supplied with sufficient camel back. The large interests are securing more rubber than the independent, hence a more equitable distribution should be worked out. Also a definite amount of passenger camel back should be manufactured.

Suggest that new equipment be sold only to independent dealers.

Cordially yours,

MIDDLETOWN GENERAL TIRE SALES,
 RUSSELL E. DEMPSTER.

 CHICAGO, ILL., *January 26, 1942.*

Congressman WRIGHT PATMAN,
House Office Building, Washington, D. C.:

We appeal to you as an independent tire dealer.

We urge your assistance in having the independent tire dealer declared the only rationer of new tires.

We urge that no additional retreading or repairing equipment be sold to any but independent.

We ask that you help us obtain more equitable allocation of camel back for recapping tires.

It is absolutely necessary that we be given relief that we may continue in business.

NATIONAL GAS & OIL SALES CO.
 SAM EHRlich.
 MORRIS FLANZER.

SALEM, OREG., *January 27, 1942.*

Congressman WRIGHT PATMAN,
House Office Building, Washington, D. C.:

May we ask your cooperation in granting independent dealers additional allotments on camel back for truck and passenger cars? Large interests are receiving more than dealers. They should not be permitted this privilege, due to their own manufacturing of rubber and other interests.

HOFFMAN TIRE SERVICE.

LOS ANGELES, CALIF., *January 27, 1942.*

Congressman WRIGHT PATMAN,
House Office Building, Washington, D. C.:

Urge your support releasing additional passenger camel-back materials to only independent tire dealers who prove they have been in business prior to tire rationing. Oil companies and other big organizations have things other than tires and retreading to keep them in business. They should not be sold retreading equipment.

D. B. A. DODSON, LTD.,
L. O. DODSON.

GALAX, VA., *January 26, 1942.*

Congressman WRIGHT PATMAN,
House Office Building, Washington, D. C.

Independent tire dealers and treaders should be given immediate relief and should be permitted distribution new tires. Ninety percent of all tire repairing is done by independent dealers. Big tire interests attempting to secure and control all tire-treading business. Independent tire dealers must receive equitable portion camel back for passenger cars. Big interests are controlling camel back. Urge your immediate action to protect small business.

INDEPENDENT TIRE DEALERS OF GALAX.

LITTLE ROCK, ARK., *January 27, 1942.*

Congressman WRIGHT PATMAN,
House Office Building, Washington, D. C.

Need your assistance in having independent tire dealers the only outlet for rationers of new tires. Big organizations have other things to sell. Ninety percent of all repairing and treading has been done by the independents in the past. Major companies were more interested in selling new tires. Major companies now attempting to cut in tire repairing and treading. We urge that no new equipment be sold to major companies. Independents can handle with present equipment by installing some new equipment in some parts of the country. Camel back should be allocated more equal. Major companies securing more than independents. More passenger camelbacks should be released. Defense workers having trouble in getting tires or treading to get to their work. Independent tire dealers and treaders need immediate relief.

MOREN TIRE & RETREADING CO.
GROVER E. MOREN.

MILLERSBURG, PA., *January 26, 1942.*

Congressman WRIGHT PATMAN,
House Office Building, Washington, D. C.:

Urgently need camel back in card sizes to keep vital people rolling. My mold idle while large rubber company builds big plant nearby.

RICHTER RETREAD SERVICE.

BENTON HARBOR, MICH., *January 26, 1942.*

Congressman WRIGHT PATMAN,
House Office Building, Washington, D. C.:

Independent tire dealers need immediate release plus more equitable distributions of camel back, as large interest getting more than independent. Also necessary for definite amount passenger be manufactured. We have 90 percent tire-repairing equipment. Can best conserve Nation's rubber; without independent,

repairing cannot be done. Definitely in favor independents only rationers of new tires. Big companies have other incomes. Independent established tread- ing, now big interest muscling in. Independent capable of handling needs at present. Should be only source to buy new equipment. These things necessary for us to stay in business.

BENSON TIRE SERVICE

LINCOLN, NEBR., January 26, 1942.

Congressman WRIGHT PATMAN,
House Office Building, Washington, D. C.:

We independent tire dealers and retreaders need immediate relief. Manufacturers are trying to take recapping business away from us. This is unfair. Hope reasonable amount of passenger tire camel back can be made and equitable distribution to we independents required to all manufacturers. We independents do 90 percent of tire repairing and servicing and should have control of sale of rationed tires in order to survive.

KINSEY TIRE CO.

St. LOUIS, Mo., January 26, 1942.

Congressman WRIGHT PATMAN,
House Office Building, Washington, D. C.:

Having met you personally when you were in St. Louis and having written you several times in the past, and knowing all the good you have been doing in behalf of the independent merchants, I want to ask you now to do everything possible to give relief to the independent tire dealer keep the repairing of tires and tubes with the independents. These manufacturers, from favoring their own stores with repair materials for recap, retread, and vulcanizing, do not allow them to ration tires, do it through the independent dealer only. Thanks for your cooperation.

E. J. TIRE & BATTERY SERVICE

MAPLEWOOD, Mo.

FREMONT, NEBR., January 26, 1942.

Congressman WRIGHT PATMAN,
Washington, D. C.:

I urge you to back the independent tire dealers' cause. The independent should be the only rationer of new tires. Big organizations, such as mail-order houses, major oil companies, and tire companies own stores, have other things to sell. The independents need the sales of the new tires that are rationed at least. Also camel back not being fairly distributed to independents by suppliers.

NICK NEFF.

NAPOLDON, OHIO, January 27, 1942.

Congressman WRIGHT PATMAN,
House Office Building, Washington, D. C.:

Am an independent tire dealer with five employees, \$13,000 stock of new rubber, only recapping and repair equipment within 20 miles. Large rubber companies are squeezing us out of business by holding back Camelback and cement and giving same to major oil companies, catalog houses, etc., who are now muscling into our business. Request fairer allotment of Camelback recapping equipment sold only to existing shops, tire rationing solely through independent distributors.

O. J. RAMUS.

STOCKTON, CALIF., January 26, 1942.

Congressman WRIGHT PATMAN,
House Office Building, Washington, D. C.:

Independent tire dealers must be given some immediate relief. Put distribution of tires in the hands of independent dealers. No more retreading equipment should be sold other than for replacement. Do not let the tire business and

retreading fall into the hands of the large interests. Independents can survive and do their part if given a job to do.

CARL S. ORTMAN.

NEW YORK, N. Y., January 26, 1942.

Congressman WRIGHT PATMAN,
House Office Building, Washington, D. C.:

Imperative independent tire dealers and treaders be given immediate relief if to remain in business and perform essential functions in plan to conserve rubber. Urgently request you make every effort accomplish this. Offer following suggestions: Make independent tire dealers sole rationers new tires; stop sale additional treading and repair equipment to any but independent dealers; allocate more Camelback independent tire dealers having substantial investment in treading equipment, large interests getting too much; permit manufacture limited amount passenger-car Camelback for independent tire dealers; only permit Government financing easy terms present new-tire inventories. Every effort should be made prevent large interests musculling in on treading industry which was established by independents, who are capable handling all treading needs for defense or civilian uses with the addition of some new equipment in some parts of the country. Practically all tire-repair equipment now in hands of independents, and without independents no tire repaying could be done. Inspection and repairing most essential in the conservation of rubber through the lengthening of life of tires now in use.

UNITED STATES TIRE SUPPLY CO., INC.,
K. R. SCHAAL, President.

THE SERBER RUBBER CO., INC.
New York, January 26, 1942.

Re: Postpone rationing order on retreading and retreads.

HON. WRIGHT PATMAN,
House of Representatives, Washington, D. C.

HONORABLE SIR: We learn through the papers that a rationing order is likely to be issued almost any day covering the retreading of passenger and truck tires as well as, so we understand, the sale of retreaded tires.

We are frank to say that we do not understand the reason for this terrific haste. The ink is hardly dry on the rationing order for new tires and one would assume that the results of new-tire rationing would be ascertained before taking this drastic retreading move.

The facts are that the new tire-rationing order has put most tire dealers on the rocks or next to it, and all that is needed to get the rest of us is the issuance of a rationing order on retreading.

We urge you most strongly to prevent or postpone the issuance of rationing orders on retreading and retreads until such time as the facts are assembled on the savings in crude rubber effected through the rationing of new tires. This saving is enormous. The weekly reports issued by local tire boards indicate that only 10 percent of the quota assigned for new tire sales has been used. If this is true around the country, it is obvious that the monthly saving of crude rubber will exceed all estimates and be beyond all expectations.

In the circumstances, the impending rationing order on retreads could well be deferred, not alone without harm to anyone, but with positive benefit to hundreds of small businessmen engaged in the tire industry.

Sincerely yours,

SERBER RUBBER CO., INC.,
By M. H. HOROWITZ.

MR. BULWINKLE. Gentlemen, I think we will have to adjourn.

The committee will stay just a minute. The rest of you gentlemen can go.

Thank you.

(Whereupon, at 12:05 p. m., the committee adjourned, subject to call.)

SMALL BUSINESS IN THE UNITED STATES

FRIDAY, FEBRUARY 6, 1942

SELECT COMMITTEE TO CONDUCT A STUDY AND
INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM IN ITS
RELATION TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.

The select committee met, pursuant to call, in the caucus room, Old House of Representatives Office Building, at 10 a. m., Hon. Wright Patman (Texas), chairman, presiding.

Present: Representative Patman (Texas), chairman; Bulwinkle (North Carolina), Ploeser (Missouri), and Fitzgerald (Connecticut). Also present: Representative Rankin (Montana).

Ira Bird Kirkland, Jr., counsel for the committee.

The CHAIRMAN. While we are waiting on the other members of the committee I would like to read into the record of today's hearing a resolution adopted by the committee in executive session yesterday. This resolution was sent to the President of the United States with an accompanying letter which reads as follows:

HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE TO CONDUCT STUDY AND
INVESTIGATION OF NATIONAL DEFENSE PROGRAM IN ITS
RELATION TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C. February 6, 1942.

The PRESIDENT OF THE UNITED STATES,
The White House.

DEAR MR. PRESIDENT: As you know, it is the determination of this committee to preserve as a part of the Nation's economy the American small business unit, and it is the opinion of the committee that the war effort of the Nation can best be brought to a successful conclusion by utilizing, wherever possible, the facilities of small business establishments throughout the Nation.

The committee is deeply concerned over the drastic effects of the recent Government orders in connection with freezing and rationing in the tire industry, and on the basis of evidence presented to the committee, in executive session and in public hearing, the committee is of the opinion that unless certain immediate steps are taken by the Government, the freezing and rationing program in this field may well result in the unnecessary destruction of many small business units in the tire industry.

The evidence before the committee discloses that the distribution of new and rebuilt tires by some retail outlets is only a minor part of the entire business activity of such outlets; and that many retail tire outlets, taking advantage of the present situation with respect to the sale of new tires, are for the first time showing an interest in tire rebuilding, and are buying up on a large scale the available supply of materials and machinery used in rebuilding tires.

After giving careful consideration to the evidence before it, the committee yesterday in executive session adopted the enclosed resolution. It is the opinion of the committee that the specific recommendations contained therein will in no way interfere with the Nation's war effort, but will, in fact, stimulate it.

The committee respectfully urges your careful consideration of these recommendations.

Yours respectfully,

WRIGHT PATMAN, *Chairman.*

WP:E

The committee met in executive session February 5, 1942, and adopted the following resolution:

Resolved, That all retail distributors of new tires and rebuilt tires, whose principal business is not the sale of those particular items, voluntarily agree to liquidate their present stocks and discontinue distribution of new tires and tubes and rebuilt tires, and that in the event voluntary agreement cannot be reached, the committee strongly urges that the Government's program of allocation and rationing give definite preference to the retail tire dealer whose principal source of business is derived from the sale and servicing of tires; and

2. That in the Government's allocation program for future distribution of all new tires and tubes to retail outlets, such distribution will only be made to dealers whose principal business is, and has been prior to December 1, 1941, the sale and servicing of tires; and

3. That all materials required for tire rebuilding (including retreading, recapping, and other rebuilding processes) be allocated only to those retail and servicing outlets whose principal business is, and has been prior to December 1, 1941, the sale and servicing of tires, and that such allocation be made fairly and without discrimination and with due regard to previous business history; and

4. That the allocation of tire rebuilding machinery (including retreading, recapping, and other rebuilding machinery) be made only to independent tire dealers whose principal business, prior to December 1, 1941, was retail tire sales and service; and

5. That materials and machinery for tire rebuilding be allocated first to those areas which do not have sufficient materials and machinery to meet the necessary tire rebuilding requirements in aid of the war effort; and

6. That it is the understanding of the committee that the Government will not sanction discriminatory price practices in any phase of the tire industry; and

7. That tire dealers desiring to liquidate frozen stocks first attempt to liquidate such stocks by sale to other tire dealers, and that upon satisfactory showing of inability to sell to other tire dealers, the Government agree to purchase frozen stocks at a price sufficient to cover all actual cost of handling frozen stocks, and a reasonable profit, to the date of liquidation; and

8. That a satisfactory program of financial aid to dealers desiring to stay in the retail tire business be put into immediate effect; and

9. That the Treasury Department grant such relief as may be permissible under the present tax laws to tire dealers whose stocks have been frozen; and

10. That the tires and tubes which were ordered, and the title to which passed to the consumer, prior to December 11, 1941, be released for immediate delivery to the consumer; and

11. That the War Department and the Navy Department utilize in every way consistent with military necessity the facilities of independent retail dealers and tire rebuilders for the purpose of rebuilding military tires; be it further

Resolved, That it is the desire and hope of the committee that the appropriate administrative officials of the Government will act immediately on the recommendations contained in this resolution, in order to prevent the unnecessary destruction of many thousands of small business units throughout the United States, and the chairman is directed to communicate this resolution to the following officers of the Government: The President of the United States, the Secretary of the Treasury, the Secretary of War, the Secretary of the Navy, the chairman of the War Production Board, the Administrator of the Office of Price Administration, and the Federal Loan Administrator.

The CHAIRMAN. Now, Mr. Hamilton, will you come around, please, sir.

Now, Mr. Hamilton, state your name and official position, if you please.

STATEMENT OF FOWLER HAMILTON, SPECIAL ASSISTANT TO THE ATTORNEY GENERAL, DEPARTMENT OF JUSTICE

Mr. HAMILTON. My name is Fowler Hamilton. I am a special assistant to the Attorney General in the Antitrust Division, Department of Justice.

The CHAIRMAN. And, Mr. Hamilton, it is known that your department is making a number of investigations?

Mr. HAMILTON. That is correct, sir.

The CHAIRMAN. If a question should be asked you that you deem it not in the public interest to answer, for the present I think you should feel free to say so.

Mr. HAMILTON. Thank you, very much.

The CHAIRMAN. Because it is not our purpose to interfere with the process of Government, and certainly not the Department of Justice, and particularly the Antitrust Division.

Mr. HAMILTON. Thank you, sir.

The CHAIRMAN. So, you may feel perfectly free to state that you do not care to answer.

Have you made an investigation of the scrap industry, Mr. Hamilton?

Mr. HAMILTON. Yes, Mr. Chairman. As a matter of fact, this investigation is still under way.

The CHAIRMAN. Have you come to any conclusion of your own that you would be willing to express to the committee?

Mr. HAMILTON. That puts me in somewhat of an embarrassing situation insofar as the mentioning of names is concerned, because this investigation is still under way and because it may eventuate into grand jury action leading to criminal actions in some cases, and I would prefer not to mention any names. I would be glad to give you any general impression of the structure of the industry which the investigation has reflected.

The CHAIRMAN. If you will, please.

Mr. HAMILTON. First, I would like to tell you that the investigation covers the whole country; that we have at various times had as many as 20 to 25 men working on it; that in accordance with our usual practice we first try to get a pattern of the way the industry operates and find out if these are abuses in that pattern.

The picture we got was one that had been suggested by Mr. Henderson at the time he referred the matter to the Department for investigation this fall; that is to say, relatively a small number of brokers of scrap iron and steel handle the preponderant amount of the remote scrap, that is, the scrap moving through the small dealers up through the larger dealers and yardmen to the large brokers, and then on to the consuming steel mill.

The CHAIRMAN. How large a number would you say?

Mr. HAMILTON. We have investigated 22, and I will say that statistics in this industry are very unreliable. I would judge that they handle probably 80 percent, between 70 and 80 percent, of all scrap.

The CHAIRMAN. These 22?

Mr. HAMILTON. These 22; yes.

The CHAIRMAN. The names of 15 were mentioned a few days ago. What percent does the 15 control?

Mr. HAMILTON. I should say that the 15 control probably slightly less than half. It is a judgment, a matter of judgment, I should say, between 50 and 70 percent. As you increase the number, the percentage controlled by each diminishes.

The CHAIRMAN. But there are 15 of the largest brokers, it is well known.

Mr. HAMILTON. Yes; I think, as a matter of fact, Mr. Henderson, when referring the matter to us, mentioned 15, and in our investigation of the 15 we found it necessary to broaden the investigation somewhat to cover these additional 7.

The CHAIRMAN. Just go right ahead.

Mr. HAMILTON. The pattern that our investigation revealed to us, it seemed to be somewhat like this, that you had a situation—

The CHAIRMAN (interposing). We just got started, Major Bulwinkle. He is just telling us about the scrap investigation of the Department of Justice.

Mr. HAMILTON. The pattern seems to be that whether by concert or by tradition of development in the industry that one or two of the large brokers would pretty nearly dominate the assembling of scrap in the vicinity in which they were acting.

You take a region in the country and you will find one, two, or three large brokers who are handling substantially all the scrap in that territory. I assume that certainly before the present emergency the steel mills found it to their advantage not to have too many competitors or too much competition amongst dealers bidding for scrap because the natural effect of that would be felt upon the price they would have to pay, and the brokers found it to their advantage to control the flow of scrap moving into the steel mills, since obviously the more scrap they handled the more their commission was, and I just mention those were factors that might have led to this situation.

It has been our experience where you find a situation of that character, where one, two, or three brokers control the scrap moving into a territory, the brokers work very close together on their price policies. The competition between them as to getting scrap moving is reduced to a minimum. There is very little incentive for them to compete, as long as they can make a working arrangement, and so the picture that we have gotten—and I do not mean that this picture applies to every situation in the country, but the general pattern seems to be—is that you have in the country, the scrap-producing areas of the country, divided into regions, each region more or less under the domination of the few of the large brokers, who work very closely together, and these brokers, in each region, manage to stay out of each other's territories.

Mr. PLOESER. By prearrangement?

Mr. HAMILTON. In some instances, investigation shows that it is; in other instances, I suppose the freight rates, and something of that character, tend to make the industry a regional one, plus the fact that one large mill in the territory might be consuming all the scrap in that territory, so you would naturally get a material division.

Now, our investigation is not completed. It has not been decided yet as to what, if any, of this evidence that we have will be turned

over to the grand jury for investigation, due to violation of the antitrust law.

Some of the practices, I think it is fair to say, may raise questions of the antitrust laws; others may not.

The CHAIRMAN. The scrap situation has been aggravated, I mean as far as accumulating in the interior is concerned, by high freight rates, has it not?

Mr. HAMILTON. I am only a lawyer. My judgment would be that that is probably a factor.

The CHAIRMAN. The information came to me from a source that I consider reliable, that where scrap is assembled on the coast, say at New York, Baltimore, Houston, Tex., or San Francisco, that the transportation by water several thousand miles and into the interior of Germany, or Japan, the rate for the freight transportation would be about \$3 per ton, whereas if you shipped it from these ports to the interior of our own country, where the steel is made, say, in the Pittsburgh area, the freight rate is approximately \$4 per ton on an average, and that situation has caused so much of this scrap to go abroad that otherwise would have gone into the interior. Have you run into that?

Mr. HAMILTON. It seems natural that that would be the effect. We have run into the situation in this case, where you have some of the scrap moving by water, some by rail and, obviously, if a man is able to preserve the same price and get the advantage of the transportation, you have in effect a price discrimination in a situation of that character. It is the difference between the two.

Mr. BULWINKLE. The same thing applied to any other commodity?

Mr. HAMILTON. Precisely.

Mr. BULWINKLE. Cotton can be shipped cheaper from Memphis to Japan than it can into North Carolina.

Mr. HAMILTON. Yes.

The CHAIRMAN. You know, we have had quite a bit of criticism about permitting scrap to go abroad, when, in truth and in fact, naturally it would go abroad when it would cost more money to send it to the interior of our own country than the interior of another country.

In other words, the people who own this scrap will naturally sell it to their own best advantage. We expect them to do that, and as long as we are on good terms with Germany or Japan, or any other country, naturally, if they would get more money for it, they would ship it there.

Another thing, Mr. Hamilton, do you know how much scrap has been shipped to Japan in the last year or two?

Mr. HAMILTON. No, I do not, Congressman.

The CHAIRMAN. Do you have that information?

Mr. HAMILTON. I could probably get the information for you. Our investigation did not go into the international aspect.

The CHAIRMAN. It did not?

Mr. HAMILTON. No. We confined it solely to trade in this country.

The EXAMINER. This book here, the one the scrap industry puts out, gave some information, but I have just wondered if you have found all this information to be accurate?

Mr. HAMILTON. It would be an easy thing to check on that, I should say, and that is, by checking with the shipping companies.

The CHAIRMAN. With the shipping companies?

Mr. HAMILTON. Yes; in matters of that kind.

The CHAIRMAN. Of course, regarding the shipments to Japan, I admit that it looks like a policy of appeasement in the last year or two, but were that true, I think it was justified. Our whole rubber supply has been accumulated during that period of time. While we were furnishing Japan a comparatively small amount of scrap iron, we were obtaining large quantities of rubber from the Dutch Indies that would possibly have been cut off if we had not followed that policy. For instance, during the past year, we have brought to our shores more than 1,000,000 tons of rubber from the Dutch Indies, and if this trouble had started a year before, it would have found us without any rubber supply, even for our Army and Navy, so the scrap situation, as far as Japan is concerned, is justified. I know that is outside the scope of your authority.

Mr. HAMILTON. Definitely outside my field.

The CHAIRMAN. I want to ask you this. Now, you state that there are about 22 brokers that you consider dominate the industry in the entire Nation.

Mr. HAMILTON. I should think they handle the greatest percentage of scrap.

The CHAIRMAN. And the country is divided up into regions; whether intended by agreement or not. It seems to be recognized and respected to the extent that certain brokers only handle the scrap in those particular regions.

Mr. HAMILTON. I think that is a fair statement.

The CHAIRMAN. I can see where that would be encouraged by the steel companies that want this scrap because, as you indicated a while ago, they want as little competition as possible in the accumulation of the scrap, and it would be to their advantage to deal with the fewest number of brokers.

Mr. HAMILTON. Precisely.

The CHAIRMAN. It would be to the advantage of the brokers to deal with them in that way because they could make more money out of it themselves.

Mr. HAMILTON. Yes; they would have the market.

The CHAIRMAN. Do you know what the price of scrap is, on an average, that is bought directly from the consumer?

Mr. HAMILTON. No; I do not, Congressman.

The CHAIRMAN. Have you looked at that?

Mr. HAMILTON. We have had great difficulty, I may say, in securing accurate statistical information. Even when we go into the files of these various dealers, and examine the books, we get very inaccurate data because apparently they just do not keep accurate records, so we have had a very difficult time in getting accurate statistical data that would mean anything.

We could get it for a small area, or a small volume of scrap, but it is hard to get a sound over-all picture.

The CHAIRMAN. You mentioned a while ago something about the financing of small brokers. Would you elaborate on that and tell us in more detail about that?

Mr. HAMILTON. In some instances, we have come across a situation where the large brokers who ordinarily have more finance avail-

able, have been able to keep dealers and yardmen of various characters in his territory from dealing with any other broker, by virtue of the fact that the broker in question has advanced money to the yardmen to finance their operations.

Money is ordinarily advanced on call which obviously places the broker in the position that any powerful creditor would have in relation to his debtor.

The CHAIRMAN. In other words, the large broker would furnish money to maybe a hundred different people who are accumulating this scrap?

Mr. HAMILTON. Either to a large number of small dealers, or to some of the larger yardmen.

The CHAIRMAN. Who are accumulating?

Mr. HAMILTON. Who are accumulating scrap.

The CHAIRMAN. From the smaller ones?

Mr. HAMILTON. Precisely.

The CHAIRMAN. And they take demand notes; is that the policy?

Mr. HAMILTON. Or it may just be an open running account.

The CHAIRMAN. A running account. In other words, they are in a strong position, a position that a creditor would be in who can demand payment at once?

Mr. HAMILTON. Yes.

The CHAIRMAN. And, of course, that gives him greater leverage in controlling the movement of this scrap, does it not?

Mr. HAMILTON. Precisely. Yes, I should say there are two important ways in which the large broker would be able to exercise a certain amount of influence over the people with whom he deals, the yardmen and the dealers. One is this credit arrangement that you have just mentioned. The other is the fact that the large broker in question is usually the one that can ship to the mill in the area so the man down below knows that he either has to deal with this man, the broker, or try to ship it outside the territory, and where the two brokers deal with the mill exclusively.

The CHAIRMAN. Usually they have just one outlet for this scrap, and one source of credit?

Mr. HAMILTON. Precisely.

The CHAIRMAN. That gives them great monopolistic powers, does it not?

Mr. HAMILTON. A certain amount of power, yes.

The CHAIRMAN. Yes. Have you noticed any unusual amount of hoarding of scrap, Mr. Hamilton.

Mr. HAMILTON. Well, our investigation hasn't gone to the point where I could make any statement that I feel would have any meaning, insofar as hoarding is concerned. In the first place, as I have said it is very difficult to get a comparative picture. In order to find out whether or not there is hoarding, you would have to ascertain what the inventory was at say, certain days of the same month, over a period of years, and then try to take account of any factors that might have been unusual at this time, such as large exports, and so forth, and get some kind of a picture against a general background.

We haven't been able to get a picture that meant very much as yet, because the investigation is not complete, and because of the frag-

mentary character of the statistics that are available, even in the books that these people have themselves.

The CHAIRMAN. How would you define an open-hearth mill that uses these furnaces? Evidently you are acquainted with an open-hearth furnace?

Mr. HAMILTON. I am not a technician.

The CHAIRMAN. I know you are not in that business, but, having made the investigation, doubtless you are familiar with what is known as an open-hearth furnace?

Mr. HAMILTON. Yes; in a general way.

The CHAIRMAN. How would you explain an open-hearth mill? How does it perform? How does it operate with reference to scrap?

Mr. HAMILTON. Well, as I say, I am not a metallurgist; it is my understanding, Congressman, that, in making the steel, you use between 40 and 60 percent of the scrap which feeds into this furnace, and the remaining amount of this metal, or the mix—

The CHAIRMAN (interposing). Steel ingots.

Mr. HAMILTON. That is right.

Those are melted down, rolled out, and then it is my understanding that 50 percent of the scrap is used back at the start of this process, and is obtained by cutting off the ends of these large bars that come rolling out in the process.

The CHAIRMAN. Then they can reuse that?

Mr. HAMILTON. That is my understanding.

The CHAIRMAN. Anyway, it takes about 50 percent scrap with the steel ingots made from the original virgin ore to produce the very best steel?

Mr. HAMILTON. That is my understanding.

The CHAIRMAN. Now, I understand that there are about 30 open-hearth furnaces that are not being used now.

Mr. HAMILTON. Yes. Our investigation has disclosed that there are a very substantial number.

The CHAIRMAN. Does that indicate that there is bound to be some bottlenecks somewhere that is stopping this scrap from normally flowing?

Mr. HAMILTON. It seems to me that is a fair inference.

The CHAIRMAN. It is your belief, is it not, that there is plenty of scrap that is available, if properly pursued?

Mr. HAMILTON. Well, that I would not be able to answer, because we have not been able to make—in the first place, our investigation has been confined to the distribution of scrap from the time scrap comes into the scrap-gathering machinery on up to the consumer, and I suppose, in order to find out whether that is enough scrap, or not enough scrap, we would have to have some way of ascertaining how many binders there are sitting around under trees on the farm, how many old balers, hay-rakes, and how much scrap is actually available in factories, and how much scrap is available in abandoned railroad lines and streetcar lines, and that, I just don't have any way of estimating. I suppose that the War Production Board people, who are interested in the industrial conservation, might be able to give you some figures on that.

The CHAIRMAN. I know it is a conclusion on my part, and I would not want you to express an opinion on a conclusion, unless you desire to do so, but the situation that you have outlined makes a perfect

set-up for one who would want to record the movement of scrap for the purpose of profiting on a high price, would it not?

Mr. HAMILTON. It is, as I say, I express opinions on these matters with great deference, first, because I am only a lawyer, secondly, because our investigation is not completed.

The CHAIRMAN. Yes.

Mr. HAMILTON. But it might work in this way—if you had some brokers who could control the supply of scrap in a given area—and I am not saying we have found any that do that—I am just describing the pattern that you are interested in—and they are interested in widening the spread, not simply in getting the commission, in widening the spread between what they bought and what they sold; they would have the power to do so, which might have the result of lowering the price, decreasing the incentive of these people down below of getting the scrap. It might work that way.

The CHAIRMAN. Of course, the big brokers don't actually hoard the scrap themselves?

Mr. HAMILTON. Oh, no.

The CHAIRMAN. He doesn't have it, but he does have a string on the scrap where he can pull it in any time he wants to, and that being true, he can, in effect, be the hoarder himself, can he not?

Mr. HAMILTON. I can say there is a power there.

The CHAIRMAN. Yes.

Mr. HAMILTON. The power exists.

The CHAIRMAN. How many open hearth furnaces are there in the country, do you know?

Mr. HAMILTON. No; I do not.

The CHAIRMAN. Does any member of the committee have that information?

(No response.)

Mr. BULWINKLE. For the purpose of the record, Mr. Hamilton, we have heard a great deal of talk about the amount of scrap shipped to foreign countries. Have you any idea what it was?

Mr. HAMILTON. No, sir; I have not.

Mr. BULWINKLE. Well, in 1939, we exported about 3,500,000 tons.

Mr. HAMILTON. Yes.

Mr. BULWINKLE. Have you any idea what we used in 1939 in domestic use?

Mr. HAMILTON. No. I should guess it would be more than that.

Mr. BULWINKLE. About 36,000,000 tons.

Mr. HAMILTON. That is about right?

Mr. BULWINKLE. I am doing that; I am calling your attention to that because there has been so much talk about the amount of scrap that was shipped to foreign countries, and it is a comparatively little amount each year when you consider it, of the total amount.

Mr. HAMILTON. That is amazing. It is out of proportion, but I did not know that it would be that much.

Mr. BULWINKLE. The Department of Commerce figures for the whole time give that.

Mr. HAMILTON. Yes.

Mr. BULWINKLE. And it is strange to see these ports; San Francisco, in 1939, shipped comparatively little.

Mr. HAMILTON. That is very interesting.

Mr. BULWINKLE. What they were doing, it was used as ballast, which went to Japan, and taking cotton at the same time.

Mr. HAMILTON. I was told when I was in New Orleans—and I would like this off the record.

(Discussion off the record.)

The CHAIRMAN. I am glad you brought that point up, Major Bulwinkle, because there is too much talk now. It amounts to almost foreign propaganda that the country sat idly by and permitted this scrap to go to Japan, and now it is coming back in the form of bullets to our own American sons, and it is very inflammatory, a very inflammatory statement, and calculated to cause people to lose their reason upon certain occasions, when the actual facts are known, that the freight-rate situation prompted a lot of it, just the natural law of supply and demand, and the law of economics, which, of course, Congress did not tamper with in this case, and the appeasement policy toward Japan, in order to get rubber, and, further, in view of the fact that only a comparatively small amount went to these other countries. The statement is more inflammatory than justified, and I am glad to see that the point has been brought out.

Mr. BULWINKLE. The chances are, if you had prohibited the export of scrap in 1937, 1938, 1939, and 1940, the steel mills of the United States would not have used a bit more than they did use, anyhow.

Mr. HAMILTON. Yes; I suppose they would use just what they wanted to, and they had all they wanted.

Mr. BULWINKLE. That is all from me.

The CHAIRMAN. Mr. Fitzgerald, do you have any questions?

Mr. FITZGERALD. No; I do not believe so.

Mr. PLOESER. I don't know what all this questioning has had to do with hoarding scrap. That seems to be the problem for this committee.

The CHAIRMAN. I believe it was material.

Mr. PLOESER. If we go on the basis of exports to Japan, which, in my opinion has nothing to do with the hoarding, but, nevertheless, it seems to be the point before the committee, for the moment, I think we will find that the State Department issued export licenses to let this scrap go to Japan some time in 1940, if I remember right.

Mr. BULWINKLE. That is absolutely correct. In 1940 how much went to Japan?

Mr. PLOESER. It doesn't matter. It depended on how much they needed to make bullets.

The American consumption has no bearing at all on what Japan may have needed. If you compared the 1939 figures you might see how much we used for munitions, knowing that Japan used all of hers for the same manufacture.

Mr. BULWINKLE. How do we know?

Mr. PLOESER. We do not know it.

Mr. BULWINKLE. I know that they were taking cotton-textile machinery.

Mr. PLOESER. That is right.

Mr. BULWINKLE. And building cotton textile plants, in competition with the American plants.

The CHAIRMAN. Requiring steel.

Mr. BULWINKLE. Requiring steel.

No one can say that it all went into cotton machinery, or bullets.

Mr. PLOESER. I did not mean to say it all went into bullets, but the comparative figures of United States consumption and Japanese consumption have no bearing at all, whether the use was right or wrong, in the matter of appeasement. I am not saying we were pursuing a policy of appeasement, but such comparative figures have no relationship in how it may affect us in this present war with Japan.

The CHAIRMAN. The word "appeasement"—I used it myself. I had no authority to use it there.

Mr. PLOESER. You have authority if you cared to use it. It is a matter of opinion.

Getting to the point and purpose of this hearing, Mr. Hamilton, what indication have you from your investigation from the State Department, what indication have you on the actual hoarding on the part of these dealers of scrap?

Mr. HAMILTON. Well, we have found very little.

Mr. PLOESER. That is what we want to know.

Mr. HAMILTON. I would like to explain that statement, if I may.

Mr. PLOESER. I wish you would.

Mr. HAMILTON. In the first place, the investigation is not complete.

Mr. PLOESER. I see.

Mr. HAMILTON. So that we may not have covered all the possible grounds, and hoarding might or might not exist. In the second place, we have experienced difficulty, even in those parts of the country we have investigated, in getting any sound figures on which we could really arrive at a conclusion as to whether hoarding does or does not exist.

In the first place, we have confined our activities to the jobbers, as Mr. Patman said, in view of the fact that if there were hoarding, the jobbers would do it.

In the second place, the jobbers, in their books and accounts and so forth, do not keep them in such a way, as I said, where you can go in and look at January or December for 3 years, March for 3 years, September for 3 years, and get a pattern of the thing. If you go in and find a lot of scrap in 1 month, that would not mean much unless you could project it against a background, and we have not been able yet to get that kind of a picture. We may be able to, before the investigation is over.

Mr. PLOESER. Do you feel it proper to answer this question:

As far as you have gone, have you any indications that there is a tendency on the part of any branch of the scrap industry, to hold back scrap that has been accumulated, for some future benefit—possibly a cash rise would be the one main benefit, and probably the only benefit that could be had? Have you found any tendency on the part of the scrap dealers to hold back?

Mr. HAMILTON. I wouldn't charge the whole industry with hoarding, but we have found a few instances, isolated cases, particularly when the price order first went in, where some of the boys were inclined to hold back just a little bit. It was only natural.

Mr. PLOESER. Are they still doing it?

Mr. HAMILTON. I think that to a much lesser extent than they did at that time. There is a tendency to become reconciled to the selling, but then, as I say, that just applies to brokers. As to the people on

down the line, they do not. I just could not say. There are 200,000 of those.

Mr. PLOESER. Your investigation is not necessarily of the scrap yards, or the wholesalers?

Mr. HAMILTON. No; that is right.

Mr. PLOESER. You are investigating the operations of the brokers?

Mr. HAMILTON. That is right. There are about 200,000 of the other people, and we just do not have the staff.

Mr. PLOESER. The brokers themselves would not apt to be hoarders, unless they owned some of these wholesale yards.

Mr. HAMILTON. Either own or control.

Mr. PLOESER. That is all.

The CHAIRMAN. Mr. Hamilton, would you be in a position to give us the names of the 22 people that you consider have the dominant part in the control of the scrap industry, or would you prefer not to give those names?

Mr. HAMILTON. I certainly want to cooperate with the committee in every way that I can; on the other hand, we have this investigation.

The CHAIRMAN. Yes; and we desire to cooperate with you.

Mr. HAMILTON. I prefer not to do so.

The CHAIRMAN. It will not be requested of you.

Any further questions, gentlemen?

Mr. BULWINKLE. None from me.

The CHAIRMAN. Thank you very kindly.

Mr. HAMILTON. Thank you very kindly.

The CHAIRMAN. Is there any Member of Congress that desires to enter an appearance? We have already had a day for Members to make their statements. Miss Rankin, and some of the Members didn't get in, and we will probably have another day, but right now, if you just want to file a statement, we will be glad to have it.

Miss RANKIN. I want to say that I am very much interested in the work of the committee, and think they are doing good work, and I think that this investigation applies especially to Montana, because we have a very sparsely settled State, and it is impossible to carry on unless every industry is carrying on. We have no large industries, except in a very few places, and transportation is one of the greatest industries in this State, and without some consideration of the people who are engaged in automotive transportation we are very much handicapped.

We have practically no new industries in the State, and, as a result, we are having a great migration out of the State to other States, and after the last war we were the only State in the Union that lost in population, and we are going to lose much more this time because they are going to these industries.

I have these communications from the State, and I would like to file those, if I may.

The CHAIRMAN. Yes, ma'm; the committee will receive them. Would you like to have a personal reply?

Miss RANKIN. For each one, you mean?

The CHAIRMAN. Yes.

Miss RANKIN. No; they have all been answered, but I would like to have it in the record.

The CHAIRMAN. In the proceedings of the committee, for consideration?

Miss RANKIN. If you please.

The CHAIRMAN. All right.

Miss RANKIN. Thank you very much.

The CHAIRMAN. Mr. Burger desires to submit a short statement for the record, which will be received.

STATEMENT OF GEORGE J. BURGER, NEW YORK CITY

Mr. BURGER. Mr. Chairman, may I take the opportunity to pay my respects to the committee for their constructive recommendation? Not only will the recommendation be helpful to the small businessmen in the tire industry, but to all small business throughout the Nation.

The committee action means just this: That they, the committee, have done more to bring justice within the tire industry than the industry itself could do for over a quarter of a century.

As time goes on, the rubber industry will look upon the committee recommendations as the turning point for business peace for the first time.

The CHAIRMAN. Anything else to come before the committee at this time?

Yes; here is another statement from Mr. Beckworth, which he would like to have in the record.

(The statement referred to is as follows:)

STATEMENT OF LINDLEY BECKWORTH, MEMBER OF CONGRESS FROM THE THIRD DISTRICT, TEXAS

Mr Chairman, and members of the committee, I wish to make a very brief statement to indicate my interest in the problems which face automobile dealers and automobile salesmen in our locality, and I wish to indicate my interest in these problems being solved as soon as possible.

In our locality we have a lot of consolidated schools, schools which, of course, use busses, and right now many of these schools are having considerable difficulty in their efforts to continue school; anything this committee can do to help see that the schools continue to run and that the busses operate so that the students may be carried to the schools will be greatly appreciated by the people of my district.

I desire to incorporate the pertinent portion of a letter I received January 16 from Mr. Jake Long, owner of the Long Motor Co., Gilmer, Tex.:

"The East Mountain School is in a bad way concerning their school busses. They have two 1937 models that are in very bad condition, one having a cracked block and is completely out of use and the other is likely to be out of use any day. Some weeks ago I made a deal with them to put the bodies on these old busses on new Ford chassis. I told them at the time that we could not deliver the jobs to them until after the 15th, at which time it was our understanding we would be able to sell heavy trucks. This morning I note that the freezing order has been extended until February 2, and it is very likely that the school will have to have the trucks before that time. At the present time they are using a used bus that I happen to have in stock and I have the new chassis in stock to deliver them."

In my opinion, automobile dealers, as well as automobile salesmen and all those who have earned their living directly or indirectly from the automobile business, are exceedingly worthy of the best efforts this Government can make with reference to solving their problems. Although they ask no priority of attention, yet they do expect and have a right to demand equal consideration with all other groups in this country.

The CHAIRMAN. Without objection, we will take a recess until Monday morning at 10 o'clock, at which time we will have the witness for Mr. Philip Murray, Mr. Harold Rutenberg, research director of the Steel Workers Organizing Committee. It was upon Mr. Rutenberg's investigation and report that Mr. Philip Murray, president of the C. I. O., made the charges that the speculation by scrap brokers is depriving industry of 200,000,000 tons of steel annually, enough to build 10 battleships, 25 cruisers, 200 destroyers, 10,000 medium tanks, 15,000 light tanks, and 4,000 heavy tanks.

A statement was made by Mr. Edwin C. Barringer, executive secretary of the Institute of Scrap Iron and Steel to the effect that sworn testimony taken last week by the Congressional Committee on Small Business definitely refutes Murray's charges that scrap interests are in fact endangering the war program to gain further profits.

It is my understanding that there was no sworn testimony before this committee. I was away that particular day because I was ill, but Major Bulwinkle acted as chairman, and am I correct in that assumption, that there was no sworn testimony?

Mr. BULWINKLE. Not a bit.

The CHAIRMAN. And without passing on the statement of Mr. Murray or by Mr. Barringer I think, in fairness to the committee, it should be said that the committee has not finished its investigation of the scrap industry, since there was no sworn testimony taken.

I have here a statement of Hon. R. E. Thomason, Member of Congress from the Sixteenth District of Texas, which I would like inserted in the record.

(The statement of Hon. R. E. Thomason follows:)

STATEMENT OF HON. R. E. THOMASON, MEMBER OF CONGRESS FROM THE SIXTEENTH DISTRICT OF TEXAS

Many months since it became apparent that readjustments would be necessary in the business life of our country to meet the national emergency. Apprehension was felt on the part of those engaged in conducting the so-called small businesses that restrictive measures that were adopted would work hardship on them and lay down regulations which they could not meet and not being able to meet them, would in extreme cases be forced out of business and where the burden was lighter, would be handicapped in carrying on.

My constituents have written me many letters concerning these questions and I desire to present to the committee the views of the El Paso Chamber of Commerce, submitted by Mr. Chris P. Fox, manager, after conducting a survey in that community. This statement in part is as follows:

"We do not feel that the potentialities of small business have been properly recognized or developed by those in command of our national defense program. The Government has been too prone to take the 'easy way'—pile more orders upon a few already glutted manufacturing syndicates. We admit it is easier as the large concerns have well-staffed engineering forces and sales staffs and are more familiar with the program. But they do not have any more plants and machines, unless they take the order and then wait for a Government subsidy to erect new factory and tooling. In the meantime the thousands of lathes, shapers, millers, borers, saws, and other machine-shop tools located in small communities are idle.

"These plants are idle because they can no longer get material for civilian needs as it has all been allocated to defense work. The smaller or medium-size shop might be a bit slow at first in getting details and would not have the money or staff to go to Washington, but if they were given some of this business on competitive or negotiated basis, with the help of the local con-

tract distribution branch offices, they could do as well or better than others and soon develop."

It is my hope that ways and means may be devised that will be adequate to cover these cases and permit the letting of defense work to our smaller industries. Failing this, these people will face a critical situation.

In El Paso for example charcoal can be made, cannisters have the material to make the cloth for gas masks and our local factories there have the facilities for sewing the material. Since gas masks will be a need for the purposes of civilian defense, something might be done in this connection.

Also in this section is a very large woodworking plant. Could not this industry be given a contract for the manufacture of ammunition boxes or some equipment vital to the war effort?

Such instances could be multiplied but I desire to economize on the time of the committee and the space in the hearings and can sum up the entire situation in the statement that something must be done for small business. I bespeak this committee's most earnest effort to that end. The automobile dealers are about to suffer a great loss. In my judgment they are not being treated fairly. I insist that favorable action not only be taken for them but for all owners and operators of small business.

Mr. BULWINKLE. I move that we adjourn.

The CHAIRMAN. Without objection, we will stand in recess until Monday morning, at 10 o'clock.

(Whereupon at 11 a. m. the hearing was recessed until Monday, February 9, 1942, at 10 a. m.)

SMALL BUSINESS IN THE UNITED STATES

MONDAY, FEBRUARY 9, 1942

SELECT COMMITTEE TO CONDUCT A
STUDY AND INVESTIGATION OF THE
NATIONAL DEFENSE PROGRAM IN ITS RELATION
TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.

The select committee met, pursuant to call, in the caucus room, Old House of Representatives Office Building, at 10 a. m., Hon. Wright Patman (Texas) (chairman) presiding.

Present: Representatives Patman (Texas) (chairman), Fitzgerald (Connecticut), and Charles A. Halleck (Indiana).

Also present: Ira Bird Kirkland, Jr., counsel for the committee.

The CHAIRMAN. This morning we have met to hear Mr. Harold Rutenberg, research director of the Steel Workers Organizing Committee, who will appear for Mr. Philip Murray, president of the C. I. O.

Mr. Rutenberg, will you give the reporter your correct address, please?

STATEMENT OF HAROLD RUTTENBERG, RESEARCH DIRECTOR, STEEL WORKERS ORGANIZING COMMITTEE, CONGRESS OF IN- DUSTRIAL ORGANIZATIONS

Mr. RUTTENBERG. Mr. Harold J. Rutenberg, 1500 Commonwealth Building, Pittsburgh, Pa. The title is research director of the Steel Workers Organizing Committee.

The CHAIRMAN. As preliminary to your testimony, Mr. Rutenberg, I would like to ask if you have made an investigation of the scrap industry in recent months.

Mr. RUTTENBERG. Yes; we have.

The Steel Workers Organizing Committee, through its research department, of which I am director, has made a continuing study of the scrap iron and steel situation for the last half year or more, particularly with the view in mind of determining the accuracy of the reports of the scrap shortage and whether or not full steel production could be obtained and sustained for an indefinite period of time.

The CHAIRMAN. And what is your opinion, after making this investigation? Do you have sufficient scrap of—

Mr. RUTTENBERG (interposing). The results of our investigation show the problem in two lights.

First, at the mills producing steel there are low supplies of scrap. In the country as a whole there is no long-term physical shortage of scrap.

The low supplies of scrap at the mills, in contrast to the large supplies of scrap throughout the country as a whole, is accounted for by reasons pointed out by this statement.

The CHAIRMAN. Have you a prepared statement?

Mr. RUTTENBERG. I have a statement that Mr. Philip Murray, chairman of the Steel Workers Organizing Committee and president of the Congress of Industrial Organizations, released for the press on Sunday, February 1, 1942. I would like to introduce a copy if I may.

The CHAIRMAN. That will be all right, Mr. Ruttenberg.

Mr. RUTTENBERG. I have a few extra copies. I would be glad to read this statement or summarize it and answer any questions the committee may have in regard to it.

The CHAIRMAN. Suppose you take the statements and bring out the points that you think are most important, if you please.

Mr. RUTTENBERG. In specific relation to the question that has just been asked, I would like to complete the answer to that, if I may.

In this statement are pointed out the dislocations that have taken place and those dislocations in large measure are due to the transition.

This statement points out that as of the week prior to February 1, the country was, as a whole, losing on an annual basis 2,320,000 net tons of steel ingots due to the fact that there was a low supply of scrap iron and steel at steel mills.

It also points out that for the whole of 1941 the industry lost 2,163,000 net tons of steel ingots due to both low scrap supplies and lack of industry-wise coordination in operating the steel industry as a whole.

The observation I would like to make is that at the very beginning, some 2, 3, or 4 months ago, when the scrap problem came into the foreground and was widely discussed publicly, the statement was pretty generally made by spokesmen for the scrap iron, as well as the steel industry, that there was a shortage in this country that could not be made up.

The CHAIRMAN. That statement is a little general [reading]:

From the outset when the Office of Price Administration, on April 3, 1941, established maximum prices on sales of iron and steel scrap other than railroad scrap, the scrap iron and steel industry, especially the brokers in it, began to promote a "shortage scare."

Do you have any newspaper statements they gave out or any statements that you can trace to them to support this statement, Mr. Ruttenberg?

Mr. RUTTENBERG. I reply to that question, the persons in the scrap industry, principally the brokers who are responsible for creating the widespread impression that there was a shortage of scrap in this country, were more circumspect than to place themselves on public record, so far as our investigation has disclosed.

Our sources of information are threefold. We began with members of our union who are first helpers, skilled workmen in the open-hearth departments of the steel industry, and the several firms,

and they know steel scrap and steel manufacture from beginning to end. We proceeded from that to speak to operating vice presidents and purchasers of big companies and presidents and general managers of some of the smaller firms, and we have talked to several scrap dealers and scrap brokers and other persons who are concerned with the scrap steel industries and from them we have determined just what has been going on, and that is the basis for our information.

The availability of public information printed in papers or in trade journals to that extent is limited, except that there has been a consistent note in editorials appearing in trade journals that perhaps higher prices might bring out larger supplies of scrap, but that is not evidence.

The CHAIRMAN. And you are convinced it was a conspiracy on the part of people who expected to profit by it to try to force the prices of scrap higher?

Mr. RUTTENBERG. Yes. And they have been successful to some degree, and as for those brokers handling large tonnages of steel scrap, their success has been quite substantial.

Now, during the period between April 3 and December 23, 1941, when the two different price schedules of O. P. A. were enunciated, the scrap industry engaged in practices of upgrading which was to deliver to a steel plant a lower grade of scrap, billing it as a higher grade and securing the price for the higher grade.

The CHAIRMAN. Right there, who would pass on that question and determine whether or not that was a violation of the order? Did the Government have someone in authority to pass on that question?

Mr. RUTTENBERG. The violation of price schedule, as I understand, is the responsibility of the Office of Price Administration.

The CHAIRMAN. Who has charge of that particular office?

Mr. RUTTENBERG. Mr. Roswell Whitman was the man in charge at the time I talked to him, which was about the 1st of December, 1941.

The CHAIRMAN. Did he know of the violations of the order?

Mr. RUTTENBERG. I talked to Mr. Whitman about the problem on the 12th or 13th of December, and I told him about it and Mr. Whitman's reply was that that was the most difficult kind of price violation to uncover and enforce.

The CHAIRMAN. Well, is Mr. Miller in his department?

Mr. RUTTENBERG. No; Mr. Miller is in the scrap iron section of the iron and steel branch of the O. P. M., now War Production Board.

The CHAIRMAN. He had nothing to do with the enforcement of this order?

Mr. RUTTENBERG. So far as I know, the responsibility for enforcing the order was that of O. P. A., the department that issued the order.

The CHAIRMAN. Wouldn't the companies enter into that? They were buying No. 2 scrap and paying No. 1 price.

Mr. RUTTENBERG. Yes; they have been part of the process. To some degree, the firms have been helpless in that. Some firms have got 10 cars of scrap, 5 of 1 grade and 5 of a lower grade and all 10 priced at the higher grade.

Mr. FITZGERALD. Why would they want to pay a higher price for a lower grade? In order just to get the scrap?

Mr. RUTTENBERG. That was the apparent reason when they did it, and the significance of those practices of up-grading is that on December 23 they were legalized by the Office of Price Administration in that the differential between grade 1 and grade 2 or scrap was eliminated and the same price set on them and these violations—

The CHAIRMAN. They were condoned?

Mr. RUTTENBERG. They are now perfectly in order. The consequence is that up-grading is still taking place.

There are still differentials, particularly for scrap for open-hearth furnaces and what they call blast-furnace scrap, of \$3 or \$4 a ton. I have a price schedule here if you want it specifically, and up-grading is still continuing.

The CHAIRMAN. You mean in violation of the order?

Mr. RUTTENBERG. Today; yes.

The CHAIRMAN. This 1 and 2, of course, has been legalized. I have a price schedule here. But you state that other grades below 1 and 2 are also graded up now in violation of the order.

Is any effort being made that you know of by the O. P. A. to stop these violations?

Mr. RUTTENBERG. It is difficult to distinguish between effort and result. I would say that the result has not been accomplished and the reason is that there is inadequate Government administration for the administration of this price schedule.

The only way the practice could be checked and stopped would be to have the inspectors at the yards inspect the cars of scrap as they come in and when a firm was found to be delivering a blast-furnace grade listed at \$16 and if they were sending in No. 2 as No. 1, there would be an upgrading of \$4.

If the Government inspector found that to be the case he would have the shipper or broker paid the price for the cheapest grade and it would not be very long thereafter until the practice would be largely checked and, in the course of time, it would be completely eliminated, but the practice has been encouraged to the extent to which it has been legalized by Price Schedule No. 4 of December 23, 1941.

The CHAIRMAN. Who got out this reprint of our hearings? I don't seem to have it here.

Mr. RUTTENBERG. I have a copy of your January 22, 1942, hearings that was distributed to a large number of supply dealers and brokers throughout the country.

The CHAIRMAN. By whom, do you know?

Mr. RUTTENBERG. By Mr. Charles H. Lipsett.

The CHAIRMAN. He is the man who testified down here?

Mr. RUTTENBERG. I believe he has testified before your committee. He is publisher of the Daily Metal Reporter and, with the reprint of the hearings of the day on which he testified, there is an editorial reprint he has distributed with it which consists of a telegram from him to Mr. Donald M. Nelson refuting the charges made by Mr. Murray in his report.

The CHAIRMAN. That there was a shortage of scrap caused by a conspiracy of the brokers?

Mr. RUTTENBERG. That is right. He denies it flatly and categorically.

The CHAIRMAN. We had some people here last week on the O. P. A. This man Miller is in what division?

Mr. RUTTENBERG. The Scrap Iron Section of the Iron and Steel Branch.

The CHAIRMAN. What do they have to do with it?

Mr. RUTTENBERG. I understand their principal job is allocation of scrap supplies.

The CHAIRMAN. They determine which concern gets the scrap. Do they have anything to do with the price of it?

Mr. RUTTENBERG. No; I understand that is set by O. P. A.

The CHAIRMAN. Strictly by O. P. A.?

Mr. RUTTENBERG. Strictly by O. P. A.

The CHAIRMAN. One of the main evils then is the upgrading of scrap?

Mr. RUTTENBERG. Yes; which can only be corrected by adequate Government administrative organization.

The CHAIRMAN. And you recommend that inspectors be employed to be on the ground and check these violations?

Mr. RUTTENBERG. Yes; Mr. Murray has a specific recommendation in that regard.

The CHAIRMAN. Suppose you take it in order, if you don't mind.

Mr. RUTTENBERG. Some scrap dealers and steel firms refused to violate the price schedule, but they were in the minority; and their compliance with the maximum prices was ill-rewarded by the revised maximum price schedule of December 23, which legalized much of this upgrading. For example, it is now legal within the revised maximum prices to charge the price of No. 1 Bundles for No. 2 Bundles, since the December 23 price schedule eliminated the price differential between these two grades of scrap.

Thus for much of the scrap tonnage the profiteering resulting from up-grading—which constituted outright violation of the original O. P. A. maximum prices—has been legalized.

Despite this concession, which has amounted to increasing scrap prices, substantial interests dealing in scrap iron and steel are still endangering the war-production program to gain still further profits. The revised maximum prices of December 23 are being violated in the same manner as were the original ones.

Profiteering through upgrading is still taking place, limited only to the extent to which it has already been legalized.

The CHAIRMAN. Now, the next statement—

an assistant administrator of O. P. A. testified last week before a congressional committee that scrap dealers are selling above the fixed price of \$20 a ton (Pittsburgh). He further testified that they were doing so with "complicity on the part of buyers."

Was that Dr. Galbraith who testified?

Mr. RUTTENBERG. Yes.

There was a report of his testimony in the New York Times.

The CHAIRMAN. That is in violation of the order, is it not, \$20 a ton (Pittsburgh)?

Mr. RUTTENBERG. That is the price now for the No. 1 grades of scrap.

The upgrading, for example, would consist of sending in No. 1 heavy melting steel which is listed at \$20, but billing it in as a grade of low phos steel at \$3 to \$4 a ton more.

And our investigations show that is still taking place in the industry.

The CHAIRMAN. I notice you state that there is no long-term shortage of scrap, and the scarcity now is due to the activities of the people whom you have mentioned, who are trying to hold this scrap off the market for more profit.

Mr. RUTTENBERG. In that connection they have been aided considerably by the fabricating concerns that, for example, have been making automobiles and stoves and washing machines and vacuum cleaners, and so forth, have considerably reduced or completely eliminated their normal operations, so the normal amount of scrap from the fabricating plants back to open-hearth furnaces have been eliminated.

You will have company A in Youngstown, Ohio, that has been shipping light sheets to company B in Salem, Ohio, and these sheets have been fabricated into jackets for stoves, washing machines, or refrigerators. Sheets are not going to this firm in the same tonnage at all. Instead, a heavier product like pipe is going to a shipbuilding yard which very likely is located along the coast, so that scrap in the final product is produced at the shipyard and is not flowing back to the same steel mill, so you have had a dislocation and disruption of the normal flow of scrap.

The CHAIRMAN. On page 4, statement No. 4, you state that "more than 30 open hearth furnaces are idle today for lack of scrap."

How many open hearth furnaces are there in the country? Do you know that?

Mr. RUTTENBERG. I don't have the figure exactly at hand. I know the annual tonnage runs about 85,000,000 tons a year distributed over some 20 principal steel firms who operate 100 or more steel plants, steel mills.

The CHAIRMAN. I notice you state here that the failure of this 30 to operate means the loss of 5,000 tons of steel every 24 hours.

That runs into a lot of steel in the course of a year—between one and a half and two million tons of steel a year, does it not?

Mr. RUTTENBERG. Yes; one and a half million, anyway, and we have made two spot checks of the number of open hearth furnaces, one in January 1941 and the other in January 1942, and each time, the number of open hearth furnaces found to be idle as of those dates, due to the scrap shortage, was more than 30, and we figure the normal number of tons produced in a heat, and you normally run two heats in 24 hours, and that is the basis of our estimation of tonnage.

The CHAIRMAN. I believe you state that the scrap price is high enough if you had an adequate program to bring the scrap out, that you are not advocating a higher price for scrap.

Mr. RUTTENBERG. No. If you increase prices, you accentuate the withholding of scrap from the normal market in the hopes of still higher prices and that has been one of the byproducts in the revision of scrap prices made by O. P. A. on December 23.

The CHAIRMAN. One statement you made here:

The price differential allowed scrap brokers, who have unduly influenced the policies of the Federal Government to the disadvantage of the purely scrapyard dealers, should either be eliminated or allowed to the dealers as well.

You say the scrap brokers have unduly influenced the policies of the Federal Government.

Mr. RUTTENBERG. Yes.

The CHAIRMAN. Whom do you have reference to there?

Mr. RUTTENBERG. Reference to Scrap Iron and Steel Institute, Inc., who, through its various members and officers—O. P. A. turned over the iron and steel branch to the Scrap Iron and Steel Institute, and the scrap-iron section of the iron and steel branch to the Scrap Iron and Steel Institute, and they have been running it ever since.

The CHAIRMAN. Wait a minute.

Say that again, if you please.

Mr. RUTTENBERG. The O. P. M. set up an iron and steel branch to cover the basic iron- and steel- and tin-producing industries.

The CHAIRMAN. Which includes scrap?

Mr. RUTTENBERG. And in that branch probably a score or more sections.

One is the scrap-iron section, and as far as I have been able to learn, Mr. Alex Miller, of Columbia Iron & Metal Co., Cleveland, Ohio, and Mr. Borinstein have been the men who have been in charge of that section.

The CHAIRMAN. Who is Mr. Borinstein?

Is he in the scrap-iron business, too?

Mr. RUTTENBERG. Yes. He is from Indianapolis, and I understand he is president of the Scrap Iron and Steel Institute.

The CHAIRMAN. And they have had charge of the scrap parts of O. P. M.?

Mr. RUTTENBERG. That is right.

The CHAIRMAN. And you think that their connections with the scrap-iron industry and their own personal selfish interests have probably prompted them to influence the Federal Government to the disadvantage of the purely scrap-yard dealers?

Mr. RUTTENBERG. That is right. The scrap connections, the control, is in the hands of a dozen or more large brokers.

The CHAIRMAN. We had the names of 15 brokers some place. Do you know about the number of brokers that dominate the scrap-iron industry?

Mr. RUTTENBERG. The industry tends to break itself down into geographical areas, and about 15 is a good number. There are about that number of areas.

The CHAIRMAN. And it is your opinion that they have been the bottleneck that has tended to retard the progress of the scrap from the holders or owners of it to the mills?

Mr. RUTTENBERG. Well, the result is the significant thing, and they have been unable, either through lack of imagination or for other reasons, to get the scrap moving into the market in sufficient quantities to prevent the loss of valuable steel production.

The CHAIRMAN. Do you have any recommendation to make about people who are directly interested in this scrap-iron business financially and otherwise being allowed to have such great control over it in the War Production Board?

Mr. RUTTENBERG. Well, the answer to that might be best cited by a specific instance that comes to my mind as a result of your question, Mr. Chairman.

The CHAIRMAN. All right, sir.

Mr. RUTTENBERG. In the city of Cleveland, Ohio, it is the general complaint by the scrap-iron dealers who operate scrap yards in that district that it has been unfair for them to have to submit reports to the scrap-iron section of the iron and steel branch of the War Production Board because in submitting those reports giving the confidential information on their sources of supplies and scrap, the amount they have in their yards, and point of destination and shipment, all that has gone into the hands of Mr. Alex Miller who is one of the officers of that section, and, it is my understanding that the report is not quite as active at present because I am informed that on January 16 in a room off the mezzanine of the Statler Hotel in Cleveland, there was a meeting of the Cleveland Chapter of the Scrap Iron and Steel Institute, at which time the principal speaker was a Mr. Price from the Washington office of that institute, and I understand that the reasons or thesis of his remarks was that the dealers should not complain about having representatives of the Scrap Institute in the scrap section of the War Production Board, iron and steel branch, because if they were removed the Government would take over the problem and the dealers would be treated less kindly and less favorably than they are now being treated through the representatives of the institute, who are now in the scrap section.

That experience would seem to indicate that there is some question as to the desirability of turning over to principal brokers in the industry governmental machinery for operating it during a wartime period.

The CHAIRMAN. A while ago you mentioned that Mr. Miller was connected with the Columbia Iron & Metal Co.

Mr. RUTTENBERG. I believe it is the Columbia Iron & Metal Co.

The CHAIRMAN. Is that one of the 15 dominating concerns?

Mr. RUTTENBERG. He and his brother, I believe, Mr. Louis Miller, are brokers. They run a scrap yard in Cleveland, but it is my understanding that the larger percentage of material they handle is as brokers.

The CHAIRMAN. Do they extend loans to people who gather up scrap?

Mr. RUTTENBERG. I cannot reply specifically as to that company, but generally speaking the dealers in the country are in hock to the brokers. The brokers act as the salesmen of the scrap of the large consumers and also as the brokers. They advance money and defer payments.

The CHAIRMAN. Was that man's name Prince?

Mr. RUTTENBERG. Price.

The CHAIRMAN. And they are given the power now to allocate this scrap. Well, they are in private business. They have clients of their own. Does that place them in a position of advantage to favor their own clients?

Mr. RUTTENBERG. That seemed to be the essence of the complaint that these scrap-yard dealers had been making in Cleveland, which brought about this meeting of their chapter on January 16.

The CHAIRMAN. Some of the smaller dealers were complaining that the allocation board being composed of the big brokers, they could work to the disadvantage of their competitors and favor their own clients or customers?

Mr. RUTTENBERG. Or could take advantage of information supplied to them as Government officials in their private capacities?

The CHAIRMAN. These fellows, are they dollar-a-year men or are they paid regular salaries?

Mr. RUTTENBERG. Our information is that both Mr. Miller and Mr. Borinstein up to a few days ago anyway, in the scrap-iron section, were not receiving any salaries from the Government.

The CHAIRMAN. I have a list of the allocations Mr. Miller has made, and information about his clients. Of course, I don't say he has discriminated against anyone else, but I notice large clients of his have received quite a large amount of scrap. Do those people who have been working for \$1 a year in allocating this scrap still get their commissions?

Mr. RUTTENBERG. Yes, they get their 50-cent fee in there. Ordinarily, brokers gamble on large supplies—that is, prior to the war, for example, broker A would get an order for 10,000 tons of scrap from a large steel firm and he may have had a tip a few weeks in advance of what the order was going to be, when it was coming, and he would buy it at 12 cents, and the price at that time would be 16. He would gamble on that information, yes. I wouldn't say specific information, as a rule, but they know when big orders are being placed.

Of course, they are confined to a 50-cent commission which works a hardship on the scrap dealer. But it is a small profit, compared to what they had previously been gambling for.

For example, we have a scrap yard, say in the city of Pittsburgh, and that scrap yard buys unprocessed scrap from the metal-fabricating firm, takes it into its yard and processes and delivers it and it gets \$20 in Pittsburgh for that grade of scrap. A broker may buy that ton of scrap at the metal-fabricating plant and the plant may have bundling equipment and process it themselves, and it would be delivered directly from the fabricating plant to the steel mill and he would get 50 cents more a ton than if it went through the yard of the dealer. Of course, the service that he has rendered has been obviously acting as a contact man for sources of scrap.

The CHAIRMAN. Suppose the Government allocated the scrap? Is there any service that they render?

Mr. RUTTENBERG. Service of a legitimate nature would certainly be limited. It is my understanding there is no allocation of scrap supplies as such. They don't take the total quantity available and total amount needed and allocate it.

I understand they run a sort of grievance committee. If a company says it is not getting enough scrap they try to satisfy that complaint. There is no adequate allocations program such as they have for pig iron.

There they take the total amount available and the total amount needed and allocate the whole business as best they can.

The CHAIRMAN. That is pig iron, the virgin product?

Mr. RUTTENBERG. The product of the blast furnace itself.

The CHAIRMAN. But there are no commissions on that. People don't get commissions on the transfer of that, do they, no brokerage?

Mr. RUTTENBERG. There is no broker element in the industry at all.

The CHAIRMAN. Has the complaint been general over the country that the mills feel as if they have been discriminated against in the allocations of scrap?

Mr. RUTTENBERG. Yes. Some companies have had a certain quantity of scrap on order from the scrap dealer and the scrap dealer reports it is on its way or has been shipped, and they have been informed it has been allocated to another mill and they go without.

The reason for the allocation may be thoroughly legitimate in the instant case—

The CHAIRMAN. I can see where people would be very vulnerable in a department in Washington working for \$1 a year and being selfishly interested in the business.

Do they make any complaints that the people in charge of it here are favoring their own clients in preference to others not their clients?

Mr. RUTTENBERG. I don't have any information that I would put my life on on that, but that is a general complaint.

The CHAIRMAN. And that was the cause of the meeting up in Cleveland the other day. Now, that was the dealers still?

Mr. RUTTENBERG. The dealers; yes.

The CHAIRMAN. Have representatives of the industry made any complaints of that nature?

Mr. RUTTENBERG. The steel industry, itself?

The CHAIRMAN. Yes.

Mr. RUTTENBERG. Yes.

I have talked to officials of small steel companies who have complained about not getting scrap that was due them and went to someone else.

The CHAIRMAN. Have you made a direct recommendation in that respect, relative to whether or not people interested in the industry should have charge of allocations?

Mr. RUTTENBERG. I don't think in Mr. Murray's report there is a specific statement on that.

The CHAIRMAN. What is your recommendation about it?

Mr. RUTTENBERG. The recommendation in Mr. Murray's report is there should be an allocation program comparable to the one in effect for pig iron, and it should be an over-all program and on this defense basis.

The CHAIRMAN. As it is, we are in a position of having people who have an interest in the allocation of the scrap say who will get the scrap and how much, and then if you have a squawk, they take up that particular complaint and see if they cannot satisfy the person who is complaining?

Is that right?

Mr. RUTTENBERG. That is right. There is no over-all allocation; it is sort of piecemeal.

In reply to your question as to the advisability of having allocations or administration in the hands of scrap dealers, you have something a little short of a scandalous situation in the scrap section of O. P. M.

A scandal is a broad thing to define—

The CHAIRMAN. You say it is a scandalous situation?

Mr. RUTTENBERG. To have these fellows down here. But it is this way—and, in confidence I would be glad to tell you the name of the scrap-yard dealer—but a scrap-yard dealer in Washington was talking to a dollar-a-year man in the scrap iron section of O. P. M. and the man in O. P. M. said, "I am donating my services to the Government" and the scrap dealer said, "For the position you have I would give the Government \$20,000 to bring me down there."

I think that is symbolic of the scandalous nature.

The CHAIRMAN. It appears to me a terrible thing for the Government to permit, just offhand, without knowing more about it than I know, and it occurs to me that the Government should not allow people who are selfishly interested to come down here and retain their selfish interests and be in a position to feather their own nests, so to speak, and work at a disadvantage to their competitors.

It does not occur to me as being in line with our democratic form of government.

Mr. RUTTENBERG. It is reprehensible—it is a reprehensible practice to turn over Government machinery to interested parties in industry.

Mr. FITZGERALD. Don't you believe it would be better for the Government to pay somebody, who is not interested in these companies, to handle this situation?

Mr. RUTTENBERG. Most certainly. A man should be paid by the Government for the services he renders and he should be made to realize that he is paid by the Government and serving the Government.

There should not be this Dr. Jekyll and Mr. Hyde situation that these men are in who work for the Government and have control of Government machinery, but think of themselves as industry men.

The CHAIRMAN. Would the Government have any trouble finding men who could do this work properly, outside of the industry?

Mr. RUTTENBERG. There are competent and honest men who have spent a good many years of their lives in the scrap industry who are available for a reasonable Government salary and who could wholeheartedly give the Government the benefit of their knowledge.

We have found such individuals who have been helpful to us and would, by the same token, be just as helpful to the Government, if given the opportunity.

The CHAIRMAN. And, it is your opinion that this conduct which you describe as scandalous has actually retarded our war effort?

Mr. RUTTENBERG. The steel industry should be able to keep operating on a sustained basis at 100 percent capacity or even better and it would be, except for the outright failure of the War Production Board scrap section, its iron and steel branch, to do the job.

The CHAIRMAN. And, if this selfish interest had not been in the picture, you think the job would have been done. Is that correct?

Mr. RUTTENBERG. I think the job could be done through the perfection of adequate organization. Let me read from Mr. Murray's report here:

The allocation program should be by the major scrap-consuming areas. There are approximately 12 such areas, each of which should have a field staff. Its job should be to ascertain the tonnage of existing scrap supplies, assist in speedier collection of scrap, administer the allocation of supplies, inspect the grade of scrap as delivered to prevent up-grading, maintain a current inventory of supplies to assist in the allocation of pig-iron supplies.

The allocation program should be guided by the following principles:

Each steel mill should be served by the scrap-yard dealers or the brokers who served it on January 1, 1940. The specifications should be those prevailing as of that same date, and the prices for unprocessed scrap should be established on the principle of allowing standard costs on the several grades of scrap for transportation and processing, plus a reasonable profit.

The CHAIRMAN. Where this enters into small business, the way I view it, is this: If this scrap had been provided, and you believe it would have been if it had not been for the selfish interest of these people, these open-hearth furnaces would have continued to run and produced something like 5,000 tons of steel every 24 hours, which, according to testimony we have had before this committee, would have been sufficient to have kept every small industry in this Nation employing 100 men or less running 100 percent. That is a pretty good thing.

Mr. RUTTENBERG. And the enormity of it is measured by the fact that it is estimated by the iron and steel branch and by trade journals in the steel industry that they will fall from 9,000,000 to 10,000,000 tons short of capacity in 1942, and if we fall 9,000,000 tons below our capacity in 1942 that is more steel than the whole country of Japan can produce in a single year.

The CHAIRMAN. And since the civilian population and civilian supplies comes second, every ton that we fail to produce is taken away from the civilian operator, and I mean from the manufacturer of civilian goods and supplies.

So, after all, that failure falls directly on the small businesses of the country, the way I view it.

Mr. RUTTENBERG. Here is a specific example. We have at the Allegheny Ludlum Steel Corporation at Brackenridge, Pa., as of the 7th of January 1942 six open-hearth furnaces idle, each capable of producing 100 tons of heat or 200 tons in 24 hours.

At that plant at that time there were adequate supplies of scrap to operate the six open-hearth furnaces but that scrap was there for the purpose of operating several electric steel furnaces which are 100 percent—or at least 98 or 99 percent—on armament work.

I talked to officials of that company and asked if the scrap problem was responsible for the six furnaces being down, and they said "No." They are not capable of furnishing the high quality of steels necessary and the scrap we have had we can't use in these furnaces for nonarmament production.

Obviously if they had adequate supplies of scrap they would have gone ahead and used the scrap for producing steel. That is the situation you have.

The CHAIRMAN. Do you know of any other lines of business where the people who are selfishly interested have charge of it in the O. P. A. or under the War Production Board?

Mr. RUTTENBERG. Well, Mr. Chairman, the answer to that, and I would like to be very specific about it, is that in the middle of 1940 the employees of Lebanon Steel Co., Lebanon, Pa., about 650 employees, organized into a local unit of the steelworkers organizing committee, and I was assigned to assist in negotiating wages. The wages there were 40 cents against 72½ cents standard minimum rate for common labor, and the company said, "We can't pay more wages. We will go out of business if we do."

The Steelworkers Organizing Committee counseled against work stoppage. There was no work stoppage. We did not get an increase in wages. But about 9 months ago that company's stockholders voted to liquidate. That company is now out of business. That company had one electric steel furnace that could produce maybe 15,000 tons on an annual basis.

The CHAIRMAN. 10,000 or 15,000 tons per annum, per week or per day?

Mr. RUTTENBERG. Per year. But what they needed to keep in business was material.

If I recall correctly they needed about 4,000 tons of billets a month. Previously they had been securing that from a large steel firm in that district. They couldn't get that billet steel. It wasn't available for them and they went out of business.

There is a small business enterprise that went bankrupt in 1935. Local people kept it going and did a heroic job, but they lost out because they couldn't get the raw material upon which they were depending.

The W. H. Davey Co. in Cleveland, Ohio, employing 500 people, operating 6 or 8 old-style hand mills has recommended, or Mr. Bruno, the president, has recommended they liquidate. The raw material they need is no longer available to them. They are going out of business.

I believe that it is altogether likely an investigation into those two specific cases would be fruitful and would disclose a definite and related significance in those cases, because we all know for the last 10 or 15 years there has been progressive absorption of small companies by the larger firms in the industry, so that fewer and fewer of the smaller companies are left.

The CHAIRMAN. I feel as if there has been an effort made to prevent the extension of the steel industry into other areas than the ones now having the steel business.

I know down in northeast Texas we have a lot of iron ore, an ore that produces fine steel, and for 50 years the people have been trying to get that developed and they would have to come to New York to get their money and the steel fellows on the boards of these banks and investment houses wouldn't give them a chance.

For 50 years they have been trying to do that and now they are trying to get to the R. F. C. to produce steel in the war effort, and we have run up against some fellows in the steel industry and O. P. M. and I don't say they were blocking us or anything like that, but they were certainly exacting in the things we had to get up, and were very rigid and strict with the requirements which they had, but we have not yet got our plant started. I don't know whether we ever will.

Mr. RUTTENBERG. Of course, the failure of the steel industry even yet to inaugurate any substantial expansion of ingot capacity is probably as scandalous as the iron scrap section of the O. P. M., and this whole thing hits at the civilian source, largely small firms.

Take an example in Pittsburgh. I know the official of a small company. He has about half a million invested of his own money and money he has borrowed from friends, and he is buying steel from this plant in Brackenridge, Pa., Allegheny Ludlum, and he was fab-

ricating this steel into sinks and so forth. There isn't anything that he can do. He is going out of business.

Surely a greater expansion of steel facilities and a greater utilization of existing ones, would make enough flow available to him to keep him and his 100 employees in business.

The biggest sufferer from the loss of steel production due to low scrap supplies and failure to expand plant facilities is the small businessman and his employees. Of course, in the long run the country as a whole will suffer from the failure to produce adequate quantities.

The CHAIRMAN. Mr. Halleck, for your information we have heard from Mr. Harold Ruttenberg who appears for Mr. Philip Murray. He makes the direct recommendation that the people who are selfishly and financially interested in iron and steel scrap should not have these positions on the War Production Board where they would have the power and authority to allocate the scrap, and he thinks that is a scandalous situation. I wasn't here the other day when some of the other witnesses testified. I had the flu and had to be out that day.

I wanted to give you that information so you can ask them any questions.

Mr. HALLECK. I shall rely on the record. I shall read the record.

The CHAIRMAN. Do you have any questions, Mr. Fitzgerald?

Mr. FITZGERALD. Yes.

I would like to get your opinion on this civic collection of scrap. Do you think it can be done?

Mr. RUTTENBERG. I think if you will approach the problem of the collection of scrap supplies as a joint problem of industry and organized labor and those civic groups interested in it, that you will get the scrap supplies, but if it is approached on the basis of an ordinary civic campaign it is likely to produce the kind of fizzle the aluminum pots and pans produced. I understand that even today some of the material collected in that drive is being offered to the highest bidder.

Take Cleveland, Ohio, where we have a joint committee and representatives of the steel workers organizing committee are on that committee. You have an old bridge with 35,000 tons of steel. It has not been used for a year. You have the problem of knocking that bridge down and putting the scrap into the open-hearth furnaces and the thing that has been appalling is the way in which the people in the scrap industry throw their hands in the air because there are certain obstacles involved in getting that bridge torn down.

You have to take your obstacles and proceed to meet them and get that scrap moving instead of throwing your hands up and offering a legitimate reason why it is difficult to get it moved.

An example of that might be that in the upper Monongahela River Valley in Pennsylvania covering the counties of Washington and Westmoreland and Fayette, a very hurried survey by the representatives of our organization finds approximately three-quarters of a mile of three single rail track at Somers No. 2 mine, which has been abandoned and 6 miles of rail from Perry City to Perryopolis. This is a railroad track and the track has been abandoned about 6 years.

A real effort and the assistance of organized labor in the district could get at those supplies of scrap and get them moving and taking up that 6 miles of rail is liable to yield more scrap than you would get from a civic campaign.

Mr. FITZGERALD. Those wheels have to be cut by acetylene torches. Where would you get the help?

Mr. RUTTENBERG. The taking up of the rail track between Perry City and Perryopolis could be done as a W. P. A. project. It is as easy to take it up as it is to replace a section on a line that is used now.

Mr. FITZGERALD. But that would take some equipment, unless you tear it up by hand altogether. And after you tear it up it has to be cut in lengths to be handled. Do you think that could be done by volunteer help?

Mr. RUTTENBERG. You could tear up your rail and move it on flat-cars. The steel industry, the rerolling industry, about 18 companies that buy old rails and roll it into small rails for narrow-gage tracks and concrete reinforcing bars and flanges and angles and so on, and these 18 companies employ about 10,000 people, and I judge about half of their people are idle today, and they can take that right to their mills, the Sweet Steel Co. and the Franklin Steel Co., in Franklin, Pa.; and Butler Steel Co., in Tonawanda, N. Y. All these small companies can take the rails right there.

Mr. FITZGERALD. What I am trying to get through my head is the collection of scrap. I can see the possibilities and a lot of obstacles, when you have civic campaigns, of taking rails or an abandoned mill of any kind of tearing it apart. Go into a sawmill or a mine or any abandoned mill where you have big machinery, cast iron or steel, that has been abandoned, and the ordinary civic-minded person cannot go in and handle that scrap. You wouldn't recommend putting a torch in the hands of an ordinary person and have him go through a gasoline tank that has been scrapped and cut the tank apart, would you? It means that you would have to have experienced men and equipment to do it. Not only that, but a great many of these big heavy pieces of machinery require equipment, derricks, hammers, to break it. It is dangerous work and I can see where a civic campaign could go along and a person would pick up a leg or a cover of a stove and bring it down and throw it into a pile, something they could handle by hand, but in preparing the rail scrap, heavy scrap, I can see a lot of obstacles placed in the way of a civic campaign and I wonder how you would suggest it be handled?

Mr. RUTTENBERG. The important thing is to release the bridge or rail. If the city owns it, you have to see that it is released for scrapping. You have bondholders' liens on some railroads. That might be the case in this abandoned rail track between Perry City and Perryopolis. You have to free it. That is the big service civic campaigns can render. And then you have too to get experienced people to tear down your buildings or your bridges and make that material available for scrap.

Mr. FITZGERALD. Do you think you could get that on a volunteer basis?

Mr. RUTTENBERG. No; but this scrap is not without some value and the scrap industry—that is supposed to be its function—it is sup-

posed to take that bridge at Cleveland, if legally condemned, and scrap it and tear it down and see that it is processed so that it is usable.

Mr. FITZGERALD. Say for argument that the industry refuses to do it and there is not enough money in \$20 a ton at Pittsburgh, and the result is that they are not doing it.

You claim in your statement here that there are millions of cars that ought to be turned into scrap. I know, as I have stated here before, my State has passed a law making them build wooden fences to hide them from the view of the people on the highway. But how are we going to do it? I don't believe it can be done on a volunteer basis and especially handling this big scrap, which requires too much equipment, and it is heavy work and dangerous work.

Mr. RUTTENBERG. I think the technical phases of doing the job can be corrected. You take your auto graveyards, and the wrecking of old automobiles. There is a problem of small business. And in Mr. Murray's report he makes a specific statement that adequate financing should be made available to the auto-wrecking industry.

"Obviously, a financing program needs to be devised so that these small businessmen will not suffer unduly."

If the scrap brokers are in charge of the program for the Government you are giving them the power of requisition.

In Youngstown, Ohio, a scrap yard is unable to buy at the present moment from auto-wrecking firms, abandoned cars for its yard. It could wreck 50 cars a day and process that and get it moving into the steel mills. You need a requisition program there. You need a little money to be able to strip the usable parts off the car so the rest of the car can go into scrap.

By its absence it seems that they are on the road to having their whole inventories requisitioned at a certain price.

The CHAIRMAN. They are at the mercy of the scrap brokers to get the money to cut this scrap up?

Mr. RUTTENBERG. Say you have 200 cars and an auto-wrecking plant, and you sell it and the scrap dealers take that—

Mr. FITZGERALD. After the scrap is processed, how would it be handled and brought to the mills? Through whose hands would that be done?

Mr. RUTTENBERG. You have a lot of heavy equipment in a lot of scrap yards that are able to assort and process. A lot of them have presses and can press an abandoned automobile body into a bale in very short order and it will go through the yard to the mill.

Mr. FITZGERALD. You are doing a lot of work with the brokers?

Mr. RUTTENBERG. I prefer to deal with the dealers. They are the men that do the job.

The CHAIRMAN. Are the brokers really necessary now?

Mr. RUTTENBERG. I think they could serve the country better if they were in functional rather than nonfunctional occupations, as is their present work.

The CHAIRMAN. What do you mean by that?

Mr. RUTTENBERG. Prior to the establishment of price ceilings and large demand for scrap they rendered a service in going out and buying up scrap and making it available to steel mills, but as you go into an allocation program there is less and less service that they can render.

The CHAIRMAN. Testimony was introduced here the other day, I understand—I wasn't here—that there is lots of scrap in these coal mines. Do you have any information on that?

Mr. RUTTENBERG. No; I don't have any information as to coal mines. I have a letter here dated January 31, 1942, addressed to Mr. Murray. The letter is from Mr. James Ball, dealer in all kinds of scrap iron, New Concord, Ohio. Later I found Mr. Ball and asked if it was all right if we used his letter at this hearing and he said "Yes." I would like to read it.

The CHAIRMAN. Go right ahead.

Mr. RUTTENBERG [reading]:

I am a scrap dealer and know what you say about dealers hoarding scrap is true. I buy from mines, oil men, and contractors, and I buy in three States and we have other people hoarding scrap besides dealers. There is plenty of scrap if people would sell it. You would be surprised at the tons of scrap individuals are hoarding thinking they will get higher prices. The country needs the scrap and I think a man or men should be appointed to see that these people sell their scrap. It is worthless to them to use and our country needs it. Anything I can do I am ready and willing to. I have been in the scrap business for 20 years.

Yours respectfully,

JAMES BALL.

He deals in a territory where there are a lot of coal mines and he reports here a reluctance on the part of coal operators to dispose of their scrap.

The CHAIRMAN. If a program can be worked out where these coal operators and owners would dispose of the scrap, do you think they would probably cooperate in an effort to remove it from the mines because the people would cooperate in an effort to get it removed from the mines, because I presume only the coal miners could very well remove it from the mines?

Mr. RUTTENBERG. I can see no difficulty there and certainly the United Mine Workers of America would be very glad to cooperate and they would have to be approached about that.

The CHAIRMAN. It appears to me, Mr. Ruttenberg, that that situation is more important to small business right now than any other factor we have encountered, for the reason that so many different kinds of plants are dependent upon steel.

Sometimes it is only a small quantity of steel that is required to make a product, and that being true I think this committee can very well afford to look fairly and well into the scrap situation and make sure that all is brought out that is possible, with the knowledge that the more scrap we get the more steel we will make, and the more steel we will make the more small businesses that are served.

We know the Army and Navy and national defense must come first, and small business takes what is left, so the more we have left the better off small business will be.

I personally appreciate your testimony. You have certainly given some very thought-providing statements this morning that I think are worthy of serious consideration, and those things you think should be further investigated, I believe the committee should investigate.

Mr. RUTTENBERG. One other large source of supply is the railroad industry and the results of our investigations, which have been very revealing in the spots where made, show that there are large supplies

of scrap in abandoned locomotives and freight cars in what they call "railroad farms." All sorts of railroad equipment.

The CHAIRMAN. You mean there is no effort to gather up that stuff?

Mr. RUTTENBERG. More scrap is available than is finding its way into the market. I am talking about locomotives that have not run for years.

The CHAIRMAN. Abandoned?

Mr. RUTTENBERG. Abandoned and no longer usable, and certainly an energetic program ought to uncover enough scrap immediately to put these idle open-hearth furnaces back to work in short order.

The CHAIRMAN. That is a very convincing statement. What about the R. F. C.? Doesn't it own some of that abandoned stock?

Mr. RUTTENBERG. You have a lot of legal problems to encounter there. Your bondholders who have liens on an abandoned bridge of an abandoned railroad or a particular locomotive—

The CHAIRMAN. But your statement is that there is enough abandoned scrap iron in the hands of the railroad companies today to start every open-hearth furnace tomorrow and keep them running?

Mr. RUTTENBERG. Yes. Certainly there is enough there to get the idle furnaces into operation now, and with a continuing program covering all sources of scrap, the steel industry could be kept operating at 100 percent.

The CHAIRMAN. If Mr. Odum's testimony is correct, and he has made a very thorough study of it, that would be sufficient to keep the small businesses that use steel running.

Mr. RUTTENBERG. I have a letter here. I would like to give you a few parts of it. It is addressed to the mayor's scrap-iron committee, dated February 3, 1942, and written by Mr. Richard Burke, of the National Maritime Unions Production Committee. I will read a couple of paragraphs. [Reading:]

As chairman of the production committee created by the National Maritime Union at a recent meeting, I wish to call your attention to a source from which a great deal of scrap iron and steel could be obtained immediately: The ships on the Great Lakes.

Every ship on the Lakes should provide several tons of scrap if an effort were made to go after it. In the dunnage rooms and in engine department storage rooms old, discarded pieces of machinery and broken machine parts, old cables, and pieces of chain will be found.

He points out then that when the ships are in port they are refitted, and so forth, and a lot of scrap produced, and then he states:

I recommend that some person or persons be commissioned to board the vessels now or as soon as refitting begins to reclaim this scrap for use in the war emergency. We seamen know the scrap is there, and has been there for years, and will stay there unless someone with authority tries to reclaim it. We will be glad to be rid of it and also of old wires and hawsers which have no earthly use, but which stay aboard because it is too much trouble to get it ashore and back into productive use.

We want also call your attention to the fact that the only reason there is plenty of ore is that there is no way to convert it to steel because of the scrap shortage.

He points out in some paragraph here that what has been done is, after they have the scrap on the ships and put out to the Lakes again, they throw it over into the Lake. That is what they have been doing rather than making it available.

There are all sorts of supplies of this nature that can be had by using some thought and some imagination on the subject instead of running around and charging and vilifying people who try to make constructive suggestions.

The CHAIRMAN. Do you have anything else to add to your testimony on this, Mr. Ruttenberg?

Mr. RUTTENBERG. No.

I have a considerable amount of information here. I have these two surveys we made of open hearth furnaces that were idle because of lack of supplies. The last survey we made was 2 or 3 weeks ago. I will be very glad to make this available.

The CHAIRMAN. May I suggest this: You can either do it this afternoon and have it ready to go into the unrevised script, or you can submit an additional statement, to include anything you have overlooked and have it in the revised print tomorrow.

Mr. RUTTENBERG. I would prefer the latter, as I will have more time.

The CHAIRMAN. Without objection, that will be done. Have you any further questions, Mr. Fitzgerald?

Mr. FITZGERALD. No, sir.

Mr. KIRKLAND. I have just a few.

Are you familiar with the organization of the Iron and Steel Branch of the War Production Board?

Mr. RUTTENBERG. Yes.

Mr. KIRKLAND. It is my understanding that branch is headed by Mr. C. E. Adams. Is that right?

Mr. RUTTENBERG. That is right.

Mr. KIRKLAND. What is his connection in the industry?

Mr. RUTTENBERG. There are two of them. One is executive deputy. The man in charge of the Iron and Steel Branch comes from a company outside the iron and steel industry, some air-conditioning company.

Mr. KIRKLAND. You will find the organization subdivided into various parts, among them is the raw materials section, which is headed by Mr. Frank Vigor, at the present time. What is his industry connection?

Mr. RUTTENBERG. American Rolling Mill Co., Middletown, Ohio.

Mr. KIRKLAND. And the former chief of that section was a man by the name of Allen?

Mr. RUTTENBERG. Norton & Co., Cleveland.

Mr. HALLECK. That is not the scrap business?

Mr. RUTTENBERG. Oh, no.

Mr. KIRKLAND. You will find the raw material section is subdivided into four sections, and the pig and scrap iron section has a man by the name of William Kerber.

Mr. RUTTENBERG. I think he is a pig iron man. The Scrap Iron Section is run by Mr. Miller and Mr. Borinstein.

Mr. KIRKLAND. The Pig Iron Section is headed by J. H. Beamer and Mr. Kerber.

Do you know if Mr. Beamer is in the pig iron business or not?

Mr. RUTTENBERG. I don't know.

STATEMENT OF RALPH HETZEL, JR., DIRECTOR, ECONOMIC DIVISION OF THE CONGRESS OF INDUSTRIAL ORGANIZATIONS

The CHAIRMAN. I believe you are the attorney for the C. I. O. in Washington?

Mr. HETZEL. I am director of the economic division.

The CHAIRMAN. Did you have any statement to make about this? I know you appeared before our committee before.

Mr. HETZEL. Mr. Chairman, we in the C. I. O., ever since the defense and war program got under way, have been greatly perturbed by the practice of the operating Government machinery which relates to the war production through the dollar-a-year men.

We cannot believe, even though many of those men may be perfectly honest in their convictions, that they can separate their companies and their interests from their operations as Government officials. We believe that the most serious part of delays in our war-output program have been due the fact that the production program has been under the direction of these men.

The automobile conversion situation is typical. Mr. Knudsen and those under him were, in our judgment, responsible for the failure to provide for a reasonable and rapid conversion in the automobile industry in such a way as to provide great employment and prevent the destruction of the vast number of subsidiary industries which feed into the automobile industry.

A reasonable conversion of that industry proposed a year and a half ago by our people would have made possible greater output and utilization of those small industries in either war or civil production, which would not have been affected by the cutting of war materials.

The steel situation that Mr. Ruttenberg has spoken about is another typical example of what happens when the Government war production is under the direction of the dollar-a-year men.

The CHAIRMAN. Can't you agree to this: That all dollar-a-year men are not bad? I don't think they are.

Mr. HETZEL. I don't impugn the honesty of a great many of them.

The CHAIRMAN. I think most of them are mighty good men. I think there are some exceptional cases where probably they have not been able to separate their own private business from the Government business and have not been as energetic as they should have been. I think Donald Nelson has pulled off his coat and is working 18-hours a day.

Mr. HETZEL. He is not a dollar-a-year man.

The CHAIRMAN. He isn't now, but he worked as hard when he was getting 8½ cents a month as he is now at \$10,000 a year. I imagine if some of those fellows were here they would be asking about labor. Is there any way labor could serve its cause through Mr. Hillman and others who are working on these boards in a selfish way?

Mr. HETZEL. I think the record is perfectly clear on this and it is an extensive record. We have shouted up and down the country about it. We have made a number of proposals.

Scrap iron was one and the steel proposal preceded it and the automobile conservation program and a proposal for the increased output of aluminum. There have been proposals for the speeding up of shipping and the handling of longshore problems.

All those things, our whole record, show an effort to maximize this output. We believe the production of our country and the employment of our people depend upon the maximum output of the American industry.

The CHAIRMAN. I don't know what the committee will do, but suppose the committee were to decide—this is for the purpose of discussion only—that we recommend to Mr. Nelson that he take the dollar-a-year men off the boards which have to do with allocations. In other words, suppose we should take all dollar-a-year men connected with industry off those boards. Suppose they would come back and say, "Shall we take labor off too"? What would be your answer for the committee on that?

Mr. HETZEL. As far as I know there are no labor dollar-a-year men with any responsibility.

Mr. HALLECK. How is Mr. Hillman paid?

Mr. HETZEL. He is a dollar-a-year man but I was going to say there are no dollar-a-year men in positions of responsibility for production.

Mr. RUTTENBERG. Is there any other besides Mr. Hillman?

Mr. HETZEL. No.

Mr. RUTTENBERG. A fellow can't exist from a salary from a labor union here in Washington.

Mr. HALLECK. It runs in my mind that when the O. P. M., or whoever was doing it, first began to cut down on the number of automobiles which could be made which was, of course, looking to conversion, that the ranks of organized labor in the automobile plants resisted those orders. Is my memory about that correct or not?

Mr. HETZEL. I don't recall that is so.

Mr. HALLECK. I had the general impression that there was a protest from the men who worked in the automobile manufacturing plants against the efforts of the Government to restrict the production of automobiles.

I recall there was a proposal of Mr. Reuther's that I thought contemplated the use of automobile production facilities that were not presently engaged in building automobiles for the larger one of the war or defense effort as distinguished from this other program that I think strictly speaking has to do with conversion, which means stopping the production of automobiles and beginning the production of war materials.

Mr. HETZEL. The object of Mr. Reuther's proposal which was made at the time when there was sufficient materials was that the then idle facilities of the then automobile plants be used for the mass production of airplanes.

Mr. HALLECK. That wouldn't contemplate conversion?

Mr. HETZEL. In addition to that, the Automobile Workers' Union have consistently urged a rapid and orderly conversion from the manufacture of automobiles to the items necessary for war.

Mr. HALLECK. I wouldn't say that had not been done, but it had not been impressed on my consciousness. I didn't recall that.

Of course, now I recognize that everyone is kind of shifting around trying to make somebody else the goat in respect to the failure to get a greater war production, particularly when something hits us overnight like the complete stoppage of automobile produc-

tion, and the demand that those plants be converted completely to war production, and, as I say, there is considerable contention about who is responsible and whose fault it is, if anybody's.

I think you people have wanted war production stepped up.

I won't say on the other side that leaders in business and industry in the country didn't want it stepped up. I think that all of us probably didn't completely contemplate what might actually happen to us. I don't think any of us foresaw the happenings in the Pacific beginning on December 7. I don't think any of us contemplated the situation that exist in the Pacific, and that, of course, has had much to do with these immediate difficulties that are striking us.

The CHAIRMAN. And without reflection on any constructive criticism the gentleman has made, or his organization, we have a lot of hindsight experts who are able to go back and say "We should have done so and so."

Mr. HETZEL. We will submit the record.

The CHAIRMAN. I am excluding you and your record.

Anything further, gentlemen?

(No response.)

Thank you very much for your testimony before us today.

Mr. HALLECK. Before the committee adjourns, I have a letter that I received this morning from a tire dealer in my town, Rensselaer, Ind. He has some suggestions that I think are very pertinent and worth while. Would it be out of order for me to read the letter into the record?

The CHAIRMAN. Or insert it.

Mr. HALLECK. I think I would prefer to read it.

I think when we had the hearings on the tire order there was one witness whose name I think was Gerard who indicated in his testimony that there were certain types of tires that the dealers had that were affected by the freezing order that should be, in his opinion, released, because they would be of the sizes or types or kinds that would not go out to the essential military or naval uses or under the rationing orders. This letter is along that line. It is addressed to me under date of February 6, 1942, and reads as follows:

We hear there is a movement to release the old type and old size tires consisting of sizes:

5.28 x 18	7.50 x 18	8.00 x 17
5.20 x 18	4.75 x 19	6.50 x 17
6.00 x 18	5.00 x 19	7.00 x 17
6.50 x 18	5.25 x 17	
7.00 x 18	5.50 x 17	

If it would be possible it would be a great relief to the tire dealers who are carrying a large stock in these sizes. And most of these sizes fit cars from 10 to 15 years old. The 17's fit cars from 6 to 10 years of age. We have in stock about 700 casings of these sizes.

By releasing these sizes it would greatly release the pressure on the farmers for transportation in taking care of their work this summer.

These sizes that we mentioned are sizes that are deteriorating and getting older and tires that the companies will not want to take back with the result that they will not only be a dead weight but a terrible loss to the dealer.

Please give this consideration and see if there is some relief on these sizes.

The CHAIRMAN. I have here some letters which are to be inserted in the record.

STATEMENT OF CONGRESSMAN JOHN M. COFFEE OF WASHINGTON

Gentlemen, I do not wish to take up more than a minimum of the valuable time of your committee, and I therefore ask to have included as a part of my remarks, some letters and telegrams attached herewith and which are self-explanatory.

The problems arising from our involvement in the current wars with the Nazis, Fascists, and the Japs are multiform, varied, and complicated. It is of paramount importance that Members of Congress do everything possible to retain and encourage the operations of small business in these United States. Independent business must survive this debacle if we are to preserve our democracy, and to retain for the people the four freedoms, the dissemination of which throughout the world the President has proclaimed to be our objective in World War No. 2. We must exemplify the benefits of democracy within our own borders before we can hope to inculcate an appreciation of their virtues in the hearts and minds of peoples in other lands.

It is difficult, if not impossible, to expect that dollar-a-year men who derive their compensation from large corporations or monopolies, will be predisposed or disposed to fight militantly in behalf of the interests of small business. Inevitably, even though it may be unconsciously, these dollar-a-year agents of big business, will support big business as against small business, will favor discriminations against small business, will place obstacles in the path of competition of their real employers. Therefore, I have advocated the removal of dollar-a-year men from the Government, and fully concur in the findings of fact of the Tolson committee of the House and the Truman committee of the Senate.

I deplore the denial of tires and tubes to owners and operators of trucks engaged in business indispensable to public health, such as in the delivery of milk, while permitting ministers of the gospel, important as it is admitted their work may be and is in frequent cases, to be exempted from the rationing of tires. It is vital that the Federal Government provide to the tire dealers and their employees, to truck drivers, to taxi drivers, to the owners of automobile agencies, their salesmen, mechanics, and employees, to the owners of small metal working plants engaged in nonwar activities, who have been deprived of essential metals for manufacturing materials, financial aid to insure the maintenance of morale and to minimize the dislocations and financial distresses resulting from our all-out war activities.

I commend the work of the committee and bespeak its continued functioning.

(The letters are as follows:)

JANUARY 5, 1942.

HON. JOHN M. COFFEE,

House of Representatives, Washington, D. C.

DEAR MR. COFFEE: We are desperately in need of help at this time and are writing to ask if you will assist us.

For the past 2 years we have made every possible effort to obtain defense work for our plant. We have called time after time at the local shipyards and the Bremerton Navy Yard, have talked personally with Mr. Frank Walsh of the Tacoma Chamber of Commerce, and Mr. Fred Bold of the Office of Production Management in Seattle.

We have filled out forms relative to our capacity, facilities, etc., and mailed them to every department where they might be of value in obtaining contracts; have written letters and sent telegrams to every firm and individual whom we were informed might assist us.

We are listing below some of those we contacted:

Seattle-Tacoma Shipbuilding Corporation, Tacoma, Wash.

Seattle-Tacoma Shipbuilding Corporation, Seattle, Wash.

Boeing Aircraft Plant, Seattle, Wash.

United States Navy Yard, Bremerton, Wash.

General Machinery Co., Hamilton, Ohio.

Filler & Stoble, Milwaukee, Wis.

Harrisburg Machinery Co., Harrisburg, Pa.

Vulcan Iron Works, Wilkes-Barre, Pa.

Joshua Hende & Co., Los Angeles, Calif.

Worthington Pump & Machinery Co., Harrisop, N. J.

Gibbs & Cox, Inc., New York, N. Y.

Service and Information Office, Washington, D. C.

Bethlehem Steel Shipbuilding Corporation, Oakland, Calif.

Todd-California, Shipbuilding Co., Richmond, Calif.

Pacific Car & Foundry Co., Renton, Wash.

Mr. William Kerber, Office of Production Management, Washington, D. C.

Commander Malone, Supervisor of Shipbuilding, Seattle, Wash.

Mr. Guy Holcomb, Justice Department, Washington, D. C.

Mr. Charles Halleck, Washington, D. C.

We also visited the "defense train" and wired immediately for a chance to bid on several articles we knew we could make.

However, in spite of our efforts we have found it absolutely impossible to obtain a contract or even a chance to bid on any defense jobs.

The other foundries in Tacoma are both very busy, working 9 and 10 hours a day, 6 and 7 days a week, and pay time and one-half for all overtime.

Our foundry is one block long, has space and equipment for 40 men, and we are now employing only 5. We have 1 traveling crane, 1 car-loading crane, and loading tracks with space for 4 railroad cars.

We have 10 carloads of materials on hand and can get enough skilled men to handle any large contract.

The quality and workmanship of our castings are the finest, and we have never experienced any difficulty with labor relations.

While we are now engaged in making iron, bronze, and aluminum castings with our present facilities, we would be agreeable to equipping our plant for steel if sufficient orders were available.

Our finances are in excellent condition, and we cannot understand why we are unable to obtain defense orders.

We are desperately in need of immediate help, for otherwise we shall be forced to close our plant.

Will you please help us?

Yours very sincerely,

(From a prominent firm of independent iron founders located in my congressional district.)

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., January 8, 1942.

DEAR MR. ———, I acknowledge receipt of yours of January 5.

Your letter is proof of the very charges I have been making against the Office of Production Management. I am disgusted with the concentration of war contracts in the hands of large, and in many cases, monopolistic corporations, instead of spreading the business throughout the country. The failure of the Office of Production Management to take care of the independent and smaller machine shops, foundries, forging and casting plants is indefensible. There are several reasons for this:

1. The Ordnance Divisions of the Army and Navy, having dealt through the years with large and well-established concerns exclusively, and being thoroughly conversant with these plants' equipment, following the line of least resistance, are reluctant to try new fields.

2. The higher brass hats are cocktail chums and social pals of the wealthy executives of these corporations. Their lobbyists are putting on parties in the national capital constantly for the Army and Navy big wigs.

3. The easiest way is to do what one has always done rather than explore new fields or try new methods.

4. The exclusive crowd who has always enjoyed practically all Army and Navy business heretofore, are not interested in developing possible rivals or competitors who would get their nose under the tent and cut in on the juicy business after the emergency is over.

5. The Office of Production Management is made up of executives of big business, as well as Wall Street brokers and financiers of big business, who, not having been elected to office, fail to recognize the importance of creating good will and morale throughout America by spreading Government business over as wide a territory as possible. Elected officials treat the public courteously

and try to understand its problems. The big-business crowd are accustomed to function as little monarchs holding sway over miniature empires and having their orders accepted as law handed down from on high.

I am enclosing a copy of my resolution designed to replace those responsible for this situation and to get a fair share of the business out to concerns such as yours, either with direct contracts from Government agencies or subcontracts for large corporations dealing with the Government agencies.

It is my plan to make use of your very interesting and persuasive letter. I plan to insert it in the Congressional Record if you men do not have any objections. Do you? Unless I hear from you by return mail to the contrary, I shall have it printed in the Record, but will not use the name of your concern or the names of your officers connected therewith, so as not to embarrass you with any dealings with Government agencies subsequently. I shall do my best to continue my interest in the welfare of small business and factories such as yours.

I shall endeavor to ascertain why it is you have not been favorably considered. Generally they tell us back here in a case such as yours, that it is up to you to secure consideration from Fred Bold, the Office of Production Management representative on contracts.

Cordially,

JOHN M. COFFEE, *Member of Congress.*

TACOMA, WASH., *December 23, 1941.*

JOHN M. COFFEE,

Congressman, The House Office Building, Washington, D. C.:

Proposed tire-recapping curtailment is ruinous. Independent tire dealers everywhere will be bankrupt. The independent tire dealers need your support immediately if investments are to be protected. Do everything possible.

FRANK FOX TIRE CO.

HOUSE OF REPRESENTATIVES,
Washington, D. C., December 26, 1941.

Mr. FRANK FOX,

Frank Fox Tire Co.,

314 Puyallup Ave., Tacoma, Wash.

DEAR Mr. FOX: This will acknowledge briefly your wire of December 23, wherein you point out that the order recently issued curtailing tire recapping will be disastrous to your interests and that of others engaged in similar endeavors.

You ask me to do everything in my power to secure a modification of this order at the earliest moment possible; that is a legitimate request and I sympathize heartily with you. On the other hand, it is only fair that I point out that these orders are issued by various executive officials of the Government operating under the authority given to them by the President, who, in turn, has been clothed with unprecedented war powers by the Congress and are not easily modified or rescinded as a result of congressional protest. Nevertheless, you may be sure that I will make my voice heard in the proper quarters for such good as it may do. In the interim I hope that numerous other independent tire dealers, such as yourself, acting singly or collectively, will bring all possible pressure to bear in the hope we can secure a hearing on this order before it is put into full force.

Cordially,

JOHN M. COFFEE,
Member of Congress.

TACOMA, WASH., *January 13, 1942.*

Hon. Congressman JOHN M. COFFEE,

New House Office Building, Washington, D. C.:

Respectfully request you attend hearing Tuesday morning, House of Representatives committee investigating plight small business. Feel consideration should be given following points to prevent widespread elimination of dealer organizations and heavy financial losses. Liquidated in orderly manner. Freezing of used cars and repair parts stocks would literally stop all dealer operations,

relief should be arranged for cases where dealers cannot stay in business and have long-term leases. Some plan should be worked out for dealers to have sub-contracts for assembling or feasible manufacture of defense equipment. Your assistance will be much appreciated.

TACOMA AUTOMOBILE DEALERS ASSOCIATION.

HOUSE OF REPRESENTATIVES,
Washington, D. C., January 15, 1942.

TACOMA AUTOMOBILE DEALERS ASSOCIATION,
Tacoma, Wash.

DEAR FRIENDS: Replying to your wire, I feel strongly that your request is just and fair, considering circumstances. I am deeply concerned at the impending joblessness of my warm friends and valued constituents comprising the salesmen, employees, executives, mechanics, identified with the far-flung automobile industry in Tacoma and vicinity.

I am all too conversant with the hardships which threaten these good folks by reason of orders freezing car stocks on hand. I am presenting forcefully to appropriate authorities here, your arguments and reasonable requests. It is our hope that if cars are requisitioned by Federal agencies, they will be required to acquire them at the current retail price, giving due consideration to the necessity for all concerned to secure a reasonable gross profit, in view of the financial losses inevitably following the shut-down in the auto industry.

As you point out, we are now in the war, we must win it, and we must all make sacrifices to accomplish that result, but all negotiations in pursuance thereof should be reasonable and should be had with due regard to permitting those adversely affected to orient themselves to the change and make adjustments.

Cordially,

JOHN M. COFFEE, *Member of Congress.*

HOUSE OF REPRESENTATIVES,
Washington, D. C., January 28, 1942.

HON. WRIGHT PATMAN,
House of Representatives, Washington D. C.

DEAR WRIGHT: Please note the attached letter that came to me this morning from W. F. Grove, president, White Rose Motors, Inc., York, Pa. Mr. Grove is also president of the York County Automobile Dealers Association.

If you think that this letter would be helpful, I will appreciate it if you will have it made a part of your hearings.

With kindest personal regards, I am

Sincerely yours,

HARRY L. HAINES.

WHITE ROSE MOTORS, INC.,
York, Pa., January 27, 1942.

HON. HARRY L. HAINES,
Old House Office Building, Washington, D. C.

MY DEAR CONGRESSMAN: I attended the National Automobile Dealers Association convention in Chicago last week and one of our most interesting speakers was the Honorable Charles A. Halleck, Congressman from Indiana, who is on our committee, and during his remarks he stated the best that we could do was to have our Congressman intercede for us and following are my feelings in the matter, of giving us some consideration in the hope of retaining our business for the duration.

When we speak of the automobile dealers of America, we refer to our 44,000 dealers employing a million and a half persons (about 1 percent of these great United States). We are sure we voice the sentiments of all of you, when we make the statement that we do not want a single passenger automobile for civilian use manufactured, in any one of the automobile plants in this country, if that one car should interfere with the manufacture of one tank, one antiaircraft gun, one machine gun, or any other implement that is necessary to win this war, yet we feel that proper consideration of causes and effects was not given to our industry before the present drastic freezing order was imposed.

This order and rationing program as issued by the Office of Price Administration, through its Director, Mr. Leon Henderson, completely disrupts the organization of 44,000 dealers and places them in a state of insolvency and business destruction. And, if that will help to win this war, the dealers of this country will accept it in the full spirit of patriotism. But we feel that today our country needs the morale of its people almost as much as the materials which are being manufactured to win the war. We cannot, by any reasonable understanding, find how the defense program can be aided in any way by the destruction of this industry. The 33,000,000 cars on the highways are necessary for the continuation of the all-out effort to produce the war implements so extremely important at this time. The present stock of automobiles in the hands of our dealers is of the materials that might be important to our defense effort if these materials were not all included in a finished product. Therefore, they can be of no particular value unless they are released before the slow rationing process bankrupts the dealers and deteriorates the automobiles beyond use or value.

Mr. Henderson and his office wants the automobile dealers of America to do an outstanding job in conserving materials vitally necessary—but why the mistake of freezing six or seven hundred thousand automobiles for an indefinite period when any man in the industry, dealer, mechanic, or automobile engineer knows that an automobile placed in storage, under cover, or outdoors (as is necessary because of limited facilities) will deteriorate to such an extent in a period of a year or more that it would no longer be the same automobile it is today.

Corrosion sets in, cylinder walls will become frozen to pistons, valves, etc.—tires will be flat, casings broken, upholstery molded, bright exterior parts will rust, paint will be affected, batteries completely ruined, etc.

It stands to reason that with 33,000,000 cars in this country of ours, an added six hundred thousand or seven hundred thousand will assist rather than deter the emergency program, and the President of the United States has the authority to commandeer from the general public all of these 33,000,000 cars, if necessary to help in our war effort. A rationing program as issued by the Office of Price Administration will serve no purpose other than bankrupting these 44,000 dealers so that it will be impossible to render service necessary to maintain all automobiles in use today—and this naturally included those who are serving to help build the millions of arms, ships, airplanes, and other vital war products.

Our Government has prohibited hoarding of any kind and we believe the hoarding of cars in the hands of dealers is just as serious as the hoarding of any other article. If we wish to keep ourselves liquid in order to give our customers the very best of service, particularly those employed in defense work who need their cars so necessarily. These cars also take up room that we need for other storage. In fact I could rent my warehouse for a storage essential to defense if I did not have to hold these cars.

In conclusion may I say that I personally feel that to force any industry out of business today, who is in any way supporting defense work would be very unpatriotic.

We therefore leave our plight in your hands in the hope of your being able to do something to permit us to at least exist.

Very sincerely,

WHITE ROSE MOTORS, INC.,
W. F. GROVE, President.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., January 28, 1942.

HON. WRIGHT PATMAN,
Chairman, Select Committee to Conduct a Study and Survey of the National
Defense Program in its Relation to Small Business of the United States,
Washington, D. C.

DEAR COLLEAGUE: Enclosed please find a telegram which I have received from Mr. Lyle Bryant of Waupun, Wis., giving the views of his labor organization with respect to certain tire restrictions.

If your committee is still taking testimony on this subject, I would appreciate your courtesy and kindness in having the enclosed telegram put into the record of the hearings.

With assurances of respect, I remain,
Sincerely yours,

HARRY SAUTHOFF.

WAUPUN, WIS., January 24, 1942.

HARRY SAUTHOFF,
Congressman, Washington, D. C.:

Local Union No. 920, representing 150 members, wishes to register their protest against the drastic tire restrictions placed against the milk, bakery, taxicab, laundry, and general delivery trucks. We believe such restrictions are not necessary. By placing restrictions on the above it will affect about 100,000 drivers. We believe such restrictions are contrary to the public interest and will create large unemployment. All private cars in personal use should be taken off the streets before there is any restriction of essential delivery of goods, and other commodities. Under existing restrictions of tires for private cars, taxicabs become a public transportation necessity because municipal transportation systems were not designated to accommodate motoring public and cannot be expanded due to restrictions on steel and other materials. We are asking you to investigate the necessity of commercial tire restrictions in view of the great unemployment hardship and disruption of food that it will create.

LYLE BRYANT, Secretary, Local 920.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., January 27, 1942.

HON. WRIGHT PATMAN,
Chairman, Select Committee on Small Business,
House of Representatives, Washington, D. C.

DEAR MR. PATMAN: Independent automobile tire dealers in my district are complaining bitterly over their inability to secure camelback for use in retreading and repairing tires. It is generally believed that many of the large companies, who manufacture camelback, are holding the material for themselves and refusing to ship any to the independent dealers.

The independent dealers in my district are equipped to repair and retread tires and it will be necessary for them to receive material in order to continue in business. I understand that over 90 percent of the tire repairing and retreading equipment is in the hands of the independent dealers.

I hope that your committee will have an opportunity to go into the camelback situation as it affects the independent tire dealers.

Sincerely yours,

STEPHEN PACE, M. C.

COLUMBIA AUTOMOBILE DEALERS' ASSOCIATION, INC.,
Columbia, S. C., January 6, 1942.

HON. HAMPTON P. FULMER,
House of Representatives, Washington, D. C.

DEAR MR. FULMER: We are enclosing a copy of an amendment to a lease which some of the larger companies are using where possible to get their rent reduced in accordance with the income of their business.

It is a fact that especially in the case of automobile dealers their business will be seriously curtailed due to the nonproduction of new automobiles which will make it impossible for some of us to continue in business unless we can get some relief from the high rents we are now under lease to pay.

We ask that you study this amendment with the thought of having a like resolution passed by the House and the Senate or consult the proper branch of the Government to issue an order, if this is practical, to place this amendment in force.

We shall thank you to wire collect immediately upon giving this some study as to your reaction to same and what, in your opinion, can be done to give us this needed relief.

Yours very truly,

COLUMBIA AUTOMOBILE DEALERS' ASSOCIATION,
C. G. VOGEL, Vice President.

By resolution of the Congress, the United States of America is now in a state of war during which certain merchandise, materials, and supplies essential to the satisfactory conduct of the lessee's business will be seriously curtailed. It is, therefore, understood and agreed that if, during any month or months of the term hereof while such state of war continues, the lessee's net sales from the demised premises shall decrease below 75 percent of such net sales for the corresponding month or months of the calendar year 1941, the rental paid for such month or months shall be reduced in direct proportion to such total decrease and credit shall be taken by the lessee for such reduction against rental due for the second succeeding month or months; *Provided, however*, That if the lessee's net total sales from the demised premises for the first or any succeeding 12-month period of the term hereof during the continuance of such state of war are equal to or in excess of 75 percent of the lessee's net total sales from the demised premises for the calendar year 1941 and all credits taken by the lessee as provided herein during any such 12 month period shall be repaid to the lessor.

Congressman H. P. FULMER,

House Office Building, Washington, D. C.

We wish to assure you we are in entire accord with tire rationing program but think some modification necessary for well being of public. Independent tire dealers need definite relief and should be allowed a more equitable allocation of capping stock for passenger-car tires. Many tire dealers have large stocks that under present system will take many months to liquidate. Seventeen-, eighteen-, and nineteen-inch tires should be in obsolete class and the lower grade passenger-car tires in popular sizes should be more liberally rationed. Inner tubes should not be rationed. Thanking you for giving the above suggestions your consideration.

CARL McCLAURIN, INC.

COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D. C., January 19, 1942.

Hon. WRIGHT PATMAN,

Chairman, Select Committee to Conduct a Study and Investigation of the National Defense Program in its Relation to Small Business in the United States,
House of Representatives.

DEAR MR. PATMAN: Enclosed herewith I send you for consideration memorandum submitted to me by the Newport News-Hampton Automobile Dealers Association.

I hope that the program may be considered, and that something may be worked out to relieve, so far as practically possible, the hardships imposed by the present situation on automobile dealers.

Yours very sincerely,

S. O. BLAND.

PROGRAM RECOMMENDED BY NEWPORT NEWS-HAMPTON AUTOMOBILE DEALERS ASSOCIATION FOR CONTINUATION OF AUTOMOBILE DEALERS ACTIVITIES

1. Permit manufacturer or manufacturers to build a victory passenger automobile of one body style only without any frills equal to 25 percent of the 1941 output.
2. No price ceiling or minimum-price ceiling or rationing of used cars.
3. Continue manufacturing of repair parts to meet full demand.
4. Permit use of second and third line new tires now in stock on used cars.

5. Relief from Federal 1941 income taxes, future social security taxes, and all taxes during future inactivity of automotive industry.

6. Federal Government to assume dealer's garage liability and workmen's compensation insurance.

7. Cancel all leases where requested and freeze rents at pre-war level.

8. Eliminate freezing order on all new passenger cars and trucks in dealer's stocks as of January 15, 1942.

9. Government guarantee dealer sufficient allowance per month to cover storage, insurance, and interest on new cars frozen in dealer's stocks.

LINDSEY-NICHOLSON CORPORATION,
Alexandria, Va., January 26, 1942.

Congressman HOWARD W. SMITH,
House Office Building, Washington, D. C.

DEAR SIR: With thousands of other independent merchants, our business has been seriously affected by the restrictions placed on us by tire rationing. Naturally, we understand that this is, to a great extent, necessary, but hope that you will keep in mind the needs of the independent tire dealers and treaders.

What we independent dealers have to fear as much as anything else, of course, is the inroads that have been made in the past by the large organizations, particularly such outfits as the big oil companies.

As far as possible we hope that you will do everything possible to keep the rationing of tires in the hands of the well-established independent dealers and not with the big organizations who have plenty of other products to sell, and, in addition, their factories have large Government contracts which will keep them going probably at a profit.

Just at this time it looks as if the large interests are able to secure camel back in much greater quantities than the independent dealers, and we hope that you will check with the proper officials and do everything possible to keep the camel back coming to the small dealers and treaders in preference to the larger outfits.

Very truly yours,

WALLACE N. LINDSEY,
President, Lindsey-Nicholson Corporation.

OMAHA, NEBR., January 16, 1942.

CHARLES F. McLAUGHLIN,
House of Representatives, Washington, D. C.

DEAR CONGRESSMAN: Cessation of activities in the motorcar industry has, as a consequent result, placed hundreds of us fellows who have for years made our bread and butter merchandising automobiles in a position where we must turn to some other source as a means of livelihood.

The situation is one which we all anticipated for some time, and to most of us it came as no surprise. However, we have been much surprised to find that when confronted with the need for employment that we are not given much consideration by even governmental agencies, being greeted constantly with the remark: "You just don't have the kind of experience or education required."

Damn it all, we want to do our part in seeing this thing through, and there must be some way that we can serve in a worth-while capacity. Most of us are beyond the age limit for active military duty, and many of us are married men with families. We can and want to help get this thing over with, so that we can some day again pursue our usual line of endeavor. We cannot do it if the apparent restrictions on work which any of us most assuredly could do are not lifted or modified.

Frankly, we're not a bunch of dummies, and while we may not have all the qualifications needed under present regulations we sure as the devil can do some of the work we know others are doing, and perhaps do it even better in many respects if but given the opportunity.

What's in the cards for fellows like ourselves? Are we going to be left in the lurch? There are things we can do, and we want to do them.

Idleness is no morale builder. Idleness has no place in our country's effort to go full speed ahead. Idleness is something we want no part of.

Yours very truly,

E. H. Strickland, 74 Neptune Place, Carter Lake, Omaha, Nebr.; C. O. Glass, 3716 Mason Street, Omaha, Nebr.; Geo. E. Mansell, 620 North Fortieth Street, Omaha; B. F. Kleyll, 4405 Cass Street, Omaha; W. J. Helling, 3317 Turner Boulevard, Omaha; P. G. Barness, 2007 North Forty-ninth Street, Omaha; A. L. Seltz, 720 Park Avenue, Omaha; L. A. Beck, 2217 Howard, Omaha; F. O. Nielsen, 4807 Cass, Omaha; W. J. Bennett, 3817 Faerlan Street, Omaha, Nebr.; Tilford C. Jones, Jr., 3349 North Fifty-ninth Street, Omaha; Leo Burdick, 1317 Park Avenue, Omaha; W. O. Wilson, 4304 California, Omaha; C. R. Thorpe, 2312 C Street, Omaha, Nebr.; Roy L. Handley, 2163 Douglas Street, Omaha; W. A. Sutley, 5837 Pine Street, Omaha; Art Connors, 5923 Poppleton Avenue; H. C. Stitzer, 208 North Twenty-fifth Avenue, Apartment 28, Omaha, Nebr.; F. J. Gregory, 5108 North Twenty-fourth, Omaha, Nebr.; Jack MacGinnell, 2424 South Seventeenth Street, Omaha, Nebr.; Guy W. Gorton, 5311 North Twenty-fifth Avenue, Omaha; D. H. Beck, 2468 North Forty-seventh Avenue, Omaha.

AUTOMOTIVE COUNCIL,
Uniontown, Pa., January 28, 1942.

The Honorable WALTER C. PLOESER,
Member of Congress from Missouri,
Washington, D. C.

DEAR CONGRESSMAN: We are communicating with you in your capacity as a member of the small business committee investigating various businesses in relation to defense. Our membership represents an investment of approximately \$1,000,000 in the city of Uniontown, serving a trading area of over 50,000 defense workers in the coal mines and the coke fields.

Three of our members were present at the hearings held in Washington on January 13 and 14 and were much impressed by the sympathy of the committee toward the evident discrimination against the automobile dealer. It is evident that we need your support more than ever.

Specifically, the delivery of all cars and trucks after February 2, when a bona fide order has been taken prior to January 1, whether or not the car had been shipped from the factory, if such order to be accompanied and evidenced by a sworn statement from both purchaser and dealer.

Specifically, immediate assurance that proper machinery be set in motion to guarantee that the unfrozen stock, i. e., that those units shipped from the factory prior to January 16th, can be disposed of at retail within a year's time.

Specifically, direct relief from the Federal Government to cover carrying charges, insurance costs, storage, etc., of cars which we cannot sell. This relief to come month by month from a governmental agency instead of creating an inflation in cost of transportation to be borne by ultimate consumer alone. The above-mentioned cost can easily force a dealer into bankruptcy through a load which he had no choice but to accept, by utilizing his available capital for this interest, etc.

Specifically, a noncancelable lease forces an impossible task to be done, whereas a moratorium on rentals alleviates the load and allow individuals to liquidate if necessary or to remain in business serving the public with an adjusted rental.

Specifically, the continuance of supplying light trucks to such outlets as farmers, who cannot use heavy trucks economically, and who will not be forced to use units which require more steel and rubber to produce, than the unit which normally fills their requirements.

Specifically, special deferment rating for mechanics engaged at repairing cars for the public. The additional demands for repairs are increasing enormously and are bound to multiply as the cars become older.

These above-mentioned items are only the major problems which confront the automobile dealer and are the ones which we feel are in need of immediate

attention. We pass them on to you with the full assurance that they will receive your considered attention in the immediate future.

Very truly yours,

UNIONTOWN AUTOMOTIVE COUNCIL,
S. C. ROBINSON, *Secretary*.

JAMESTOWN, N. Y., *January 29, 1942.*

Representative WRIGHT PATMAN:

We vigorously protest against the adoption of amendment 3 to regulation W as proposed by the Federal Reserve Board. Would be same as freezing used cars. Please use your influence to defeat this.

NEW EAGLE MOTORS,
NEIL A. KENNEDY, *President*.

UICA, N. Y., *January 28, 1942.*

Congressman WRIGHT PATMAN,

House Office Building, Washington, D. C.:

We are looking to you for immediate relief for the independent tire dealers; that they be made sole rationer of new tires as larger organizations have many other articles to sell. Ninety percent of retreading and inspecting equipment belongs to the independent. The independent needs help in obtaining camelback, and there should be a larger allocation of passenger-tire camelback. All new retreading equipment should be sold to the independent dealer. Your support in the above will be greatly appreciated.

BURKES SERVICE.

TOWN OF WELLSVILLE,
Wellsville, N. Y., *January 25, 1942.*

COMMITTEE ON SMALL BUSINESS,

114 House Office Building, Washington, D. C.

(Attention of Hon. James M. Mead.)

GENTLEMEN: Listened with interest tonight to the discussion on the American Forum of the Air regarding the position of small business in the present set-up.

There are many small businesses in this vicinity. Garages which formerly sold cars and trucks; tire companies, whose main source of business was the sale of tires and tubes. Many of these firms owned the real estate where they were in business. Now through no fault of their own they have been, to all practical purposes, put out of business by Government decree. Their store building or garage in some cases are of no use to them, and in other cases only partially used. Why should they be assessed for real-estate tax at the former value of the land and buildings? Has the Government given this angle any consideration, and have any suggestions been made as to a temporary reduction of assessed value of such properties?

I have written to the department of taxation and finance at Albany asking for suggestions, and they say that nothing has been done up till now about it. They suggest that we carry the property at the full value for another year and see what develops in the tire and garage and auto-sale business. This seems a little tough on the property owner. Has this matter been given any consideration at Washington?

Would appreciate any information you can give me on the matter.

Yours truly,

P. A. ENSON,
Chairman, Town Board of Assessors.

MARIANNO RETRACTABLE RAMP CORPORATION OF NEW JERSEY,

Port of Newark, N. J., January 26, 1942.

HOUSE SMALL BUSINESS COMMITTEE,

114 House Building, Washington, D. O.

GENTLEMEN: Recently, as subcontractors, we completed the construction of a retractable ramp for flying boats at the naval air station, Quonset Point, R. I. This ramp at the final inspection by the Navy authorities operated perfectly with a load of 80 tons of steel and it was approved and accepted by the United States Navy.

Our shop is equipped to fabricate structural steel and our lathe machines can produce different kinds of work. The reason we are communicating with you

is that our shop at present is idle and in these times of stress where our country is in need of production we cannot unders'and why a small producer like ourselves must go through so much red tape to keep our wheels turning.

Will you please give this matter your consideration?

Very truly yours,

MARIANNO RETRACTABLE RAMP CORPORATION.

OKLAHOMA CITY, OKLA., January 30, 1942.

Congressman WRIGHT PATMAN,

House Office Building, Washington, D. C.

We had 40 employees, now have 28 and under existing conditions will have to reduce further, probably 10 or less, provided we do not go out of business entirely. Have been unable to secure camelback. Understand large interests have secured more than their share. One major company retreading shop here stated they had additional 30 days' supply of camelback. All local independents supply on passenger sizes has been exhausted for several weeks. Understand major companies allotted camelback to their own stores although all shipments were made to one point, their district retreading plants. Major companies have less than 10 percent of retreading and repair equipment, and the independents' with 80 percent are slowly being forced out of business by unfair methods of the large interests. Careful inspection and repairing of tires is essential to conservation of rubber and we urge your consideration and assistance to the independent tire dealers. There is a definite need for more equitable allocation of camelback. There is a definite need for immediate assistance for the independent who has all his capital frozen in new tire stock such as we have.

ARTHUR V. SWANSON,
FREDERICKSON TIRE CO.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., February 2, 1942.

Hon. WRIGHT PATMAN,

Member of Congress, Washington, D. C.

DEAR COLLEAGUE: The Miami Automobile Dealers Association, of Miami, Fla., has communicated with me with the request that some assistance be given these dealers in the matter of their tax payments on earnings for 1941, and have advanced the suggestion that they might be allowed to combine their earnings in 1941 and 1942 so that their income tax would be reduced thereby and they would naturally be in the lower brackets as to surtax. Failing there, it is felt that some relief might be given them in the way of extending the payment period beyond the year 1942.

It is agreed, I believe, by all members who attended your hearings on the automobile situation, that these gentlemen are entitled to some relief by the Government. Just what form this may take, or just what forms of relief your committee is considering, I, of course, have no way of knowing. It is hoped, however, that we may at least assist them in maintaining their holdings during these trying days and insuring them of the possibility of business activity when this war ends.

It will be indeed appreciated if the wishes of the Miami Automobiles Dealers Association are brought to the attention of your committee when next it is in executive session.

With warm regards and every good wish for your continued success, I remain,

Yours sincerely,

PAT CANNON.

The CHAIRMAN. Tomorrow we will hear Mr. Paul Cabot, Scrap Conservation Division, War Production Board.

Without objection we will stand at recess until tomorrow morning, at 10 o'clock.

(Whereupon, at 11:50 a. m., the hearing was recessed until Tuesday, February 10, 1942, at 10 a. m.)

SMALL BUSINESS IN THE UNITED STATES

TUESDAY, FEBRUARY 10, 1942

SELECT COMMITTEE TO CONDUCT A STUDY AND INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM IN ITS RELATION TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.

The select committee met, pursuant to adjournment, at 10 a. m., in the caucus room, Old House of Representatives Office Building, Hon. Wright Patman, of Texas (chairman), presiding.

Present: Representatives Patman, of Texas (chairman); Fitzgerald, of Connecticut; Halleck, of Indiana; Hall, of New York; and Ploeser, of Missouri.

Also present: Ira Bird Kirkland, Jr., counsel for the committee.

The CHAIRMAN. Mr. Cabot, with your permission, we will hear from Mr. Luring for a few minutes and then get right back to our program that was outlined.

STATEMENT OF H. G. LURING, NORFOLK, VA.

The CHAIRMAN. Will you give your name and occupation and residence to the reporter, please?

Mr. LURING. My name is H. G. Luring, aged 52, residing in Norfolk, Va. I am in the automobile business, retail automobile business.

The CHAIRMAN. How long have you been in that business, Mr. Luring?

Mr. LURING. I have been in the automobile business, sir, for 13 years. I would like briefly to give the committee a picture of my background.

The CHAIRMAN. Suppose you do that, Mr. Luring.

Mr. LURING. At age 19 I entered the naval service and remained in the naval service until after the World War No. 1, leaving the service the latter part of 1919.

I engaged in a mercantile business in Norfolk, Va., was married, and began raising a family, and assumed responsibilities that the raising of a family entails.

I continued in the general mercantile business until 18 years ago, and I then felt that I could see an opportunity in retailing of automobiles and, therefore, entered the automobile business.

The CHAIRMAN. Have you handled the same line of cars?

Mr. LURING. In the 13 years I have handled two lines of cars. The present line of cars that I handle I have handled since 1933.

The CHAIRMAN. What kind is that?

Mr. LURING. Dodge, Plymouth, and Dodge trucks.

The CHAIRMAN. We have had lots of testimony on the plight of the automobile dealers, and the committee is thoroughly sympathetic with their problem. What they are looking for now is a remedy to alleviate the situation which we know is absolutely necessary. In other words, in order to have steel you must conserve the supply of steel and use it for purposes that will more successfully enable us to prosecute the war.

That being true, we cannot use it for pleasure vehicles, pleasure automobiles, and we must even subordinate civilian necessary needs to the needs of the Army and Navy.

And with that situation, with which I am sure you agree and concur, if you will outline some remedies that you believe should receive the consideration of this committee, I think they will be appreciated.

Mr. LURING. Mr. Chairman, I am not unmindful that we are at war. I am mindful of the great need for steel and various necessary materials that go into making up of sorely needed defense equipment.

But first I want to say that I appear before you as an individual representing no group or association. Realizing the need for these metals, I realize that the automobile production must of necessity cease for the duration. I make no protest on that score.

I am wholly in accord with the program to utilize every facility and every material to further the war effort. I realize as an automobile dealer that my source of supply having been cut off from me, that I ultimately must go out of business.

I come to you with a full realization of that fact. When I examine my books and I find that in the year 1941 my fixed overhead, that is, the actual fixed overhead less selling costs, amounted to \$100,185.96; my total gross profit from the sale of retail parts and accessories and the labor for repairing of automobiles was only \$36,177.73. So that my total parts and service contributed to my fixed overhead only 36.9 percent.

I want to make this point: That without the sale of new automobiles I must face the reality that I must go out of business because there is not enough profit from my sale of parts and service to sustain that fixed overhead. I have come to that point now where I know I must go out of business.

Now, a freezing order comes along on January 1 and denies me the opportunity to liquidate my business in an orderly fashion in order to preserve as much as possible of my capital investment in my automobile business. If I am compelled to carry my stock of new cars that have been frozen, and which a stringent rationing order will stretch out over a long period of time, maybe 10 or 12 months, it will dissipate my entire capital investment which is my life's savings.

The 70 units that I have on hand have been frozen now since January 1. My overhead is continuing to go on at an average of \$8,300 per month.

Now, then, I can recover from my parts and service sales only 36.9 percent of that \$8,300, taking a total loss on the difference, because I am prohibited from selling passenger cars and trucks.

The CHAIRMAN. That is typical of all other automobile dealers, I presume?

Mr. LURING. Yes.

The CHAIRMAN. You have got down to the point of relief to these people who are making this tremendous sacrifice. In other words, you

have the cars frozen and you have your overhead continuing. Now, what should the Government do to relieve that situation?

Mr. LURINO. First, I want to say that as a group and as an individual, I am just as patriotic as any other citizen in the country. I am willing to make whatever sacrifice and contribution might be necessary for the successful fighting of this war. I realize that I must go out of business. I accept that as a reality without protest, and I feel that if the Government needs those automobiles and trucks that are in my stock, I shall be happy and glad to turn them over to the Government if they will in any wise contribute to the war effort.

The Government has not indicated that they have any need for or want these 70 units that I have in my stock. I am compelled to keep those cars frozen, continue the wages and salaries of 52 employees, without relief in sight.

The CHAIRMAN. Many dealers, in order to get the money to pay the manufacturer, who have not had the money on the barrel head, have had to borrow the money and are now paying the interest.

Mr. LURINO. Yes, sir. I am possibly a bit more fortunate than some dealers in that I own my inventory. This is a goal that I have been working for.

The CHAIRMAN. What should the Government do? Should the Government take those cars and pay for them?

Mr. LURINO. The Government should either take the cars and pay for them and give me the opportunity to liquidate myself out of business with the least amount of loss, or permit me to go ahead and sell them in due course.

The CHAIRMAN. One or the other?

Mr. LURINO. One or the other.

The CHAIRMAN. It being true, I presume, that these cars will have to be liquidated in order to place them in the hands of people who need them most—the mail service and physicians and people who are absolutely essential. That being true, there is only one alternative and that is for the Government to take them over or compensate you for keeping them.

Mr. LURINO. If they compensate me for keeping them I shall have to continue in business and lose my capital investment.

The CHAIRMAN. If the Government were to take them over, what price would it be right for the Government to pay?

Mr. LURINO. A fair price. I think I should be compensated for them at a figure above my actual cost; however, below the retail price.

The CHAIRMAN. I think you have got something there. I think that is a suggestion worthy of serious consideration. You know, it requires very little to be done to put into effect a freeze order by the people here in Washington who have such enormous powers, but the repercussions on the small business concerns of the Nation are terrific and destructive, as constructive and helpful as the motive will finally prove to be, and I think your idea there that the Government should either take the cars over and pay you a fair profit—you would not be unreasonable and none of the other dealers would be unreasonable, I am sure, because they have all assumed a fair attitude all the way through—or pay you a sufficient amount to retain them, an amount that would enable you to stay in business.

Mr. LURINO. Yes, sir. I have a lease also that is an obligation. I own some properties that I operate some of the departments of my business on.

These properties are special-purpose buildings, and are useless for any other purpose.

The CHAIRMAN. Do you handle tires?

Mr. LURINO. No; I don't handle tires.

The CHAIRMAN. But one handling tires would be in the same position as yourself?

Mr. LURINO. Yes, sir.

The CHAIRMAN. Except that the deterioration is more. But these automobiles have tires on them, and a car depreciates as much in the tires in absolute value?

Mr. LURINO. A car in storage will depreciate.

In my remarks, Mr. Chairman, I speak of what is commonly known as A cars, cars received into my stock from a manufacturer prior to January 15. I don't mention so-called B cars or pool cars. Pool cars are so designated by the manufacturer or the Government, and are cars shipped after January 15, whereby the dealer agrees upon the acceptance of those cars to hold them until January 1943.

I understand there were probably 200 cars and trucks that came under that classification.

The CHAIRMAN. Class B?

Mr. LURINO. Class B or pool cars that were manufactured and shipped after January 15.

The CHAIRMAN. Those are the ones that I presume satisfactory arrangements are made for disposing of.

Mr. LURINO. Yes, sir; and those dealers had agreed to accept those cars and hold them until January 1943.

The CHAIRMAN. They are satisfied with the terms?

Mr. LURINO. They are satisfied with the terms.

The CHAIRMAN. It is the cars delivered before January 15 that are your immediate problem?

Mr. LURINO. And all of the cars of the 70 units that I now have in my stock were received into my stock prior to December 31, with the exception of 7 units.

The CHAIRMAN. I think you have reduced your case to the last analysis. If the Government is going to freeze these cars that were delivered before January 15, the Government should take them over and pay the dealers a reasonable price or should make some satisfactory arrangement for those cars in the same way and manner that they have made satisfactory arrangements about cars delivered after January 15.

Your case is typical of the average automobile dealer, isn't it?

Mr. LURINO. Yes, sir; I think it is.

The CHAIRMAN. If you want to revise your remarks you will be privileged to do so. Tomorrow morning they will be printed and Mr. May can send you a copy, and if you desire to extend your remarks and put something else in, Mr. May can do it for you and I know he will be glad to do it.

Mr. LURINO. I just want to bring this point out again, Mr. Patman. It is not possible for me to remain in business on parts and service.

The CHAIRMAN. You made that plain, because less than 40 percent of your revenue comes from that.

Mr. LURINO. There is one more point, Mr. Chairman, if I may.

If the Government chooses or elects to purchase my stock of new cars and trucks, I think then that the Government has also some responsibility with reference to my lease.

The CHAIRMAN. That is a new point. That has not been explored. You mean you have a lease on your building?

Mr. LURINO. Yes, sir.

The CHAIRMAN. If the Government assumed that responsibility I can see where it would run into huge proportions. You take some fellow in a large city who will have a lease that is good only because of his location, a location where people usually travel, and where he can have a show window, and he maybe pays several thousand dollars a month for a window that is valuable only for show purposes, and if the Government determines to take over leases it will, of course, assume an obligation on that. Maybe it is right; I don't know. I haven't given it any consideration.

Mr. LURINO. I feel there is some responsibility on the part of government there. With the 70 units I have an investment of approximately \$60,000, with a potential profit at regular retail prices of approximately \$18,000. Now, if I say to the Government, "You take these cars; you may compensate me on a fair basis," and we will say the basis is \$70,000, I am sacrificing a portion of my potential profit that would be available to me if permitted to sell the automobiles in due course.

The CHAIRMAN. That doesn't appeal to me a great deal because somebody has to sacrifice in this war. If we happen to be in a business that compels that, we must sacrifice as much as we can. If it is right to take care of the lease on the business, what about a lease on the home?

Mr. LURINO. I speak of future profits, Mr. Chairman, only in relation to my cost of maintaining my business.

The CHAIRMAN. You have made a fine statement and I appreciate it very much, and I want to thank Congressman May for bringing you around.

Mr. LURINO. I thank you very much for the privilege of appearing before you.

Mr. MAY. I want to express my appreciation for your extreme courtesy.

The CHAIRMAN. All right.

STATEMENT OF PAUL C. CABOT, NEEDHAM, MASS.

The CHAIRMAN. Mr. Cabot, will you give your name and official position and your post-office address to the reporter, please?

Mr. CABOT. Yes, sir. My name is Paul C. Cabot and I live in Needham, Mass., Chestnut Street, and at present I am Deputy Chief of the Bureau of Industrial Conservation of the War Production Board, and, Mr. Patman, if it pleases you, what I would like to do is to tell you a little of who I am, what the Bureau does, and then with specific reference to the salvage activities of the Bureau, what the plans are, what the results have been to date, and then I would like to end by giving a

statement relative to certain testimony that has already been submitted to you, specifically respecting Congressman Kirwan and the gentleman from the C. I. O. who made a statement yesterday.

The CHAIRMAN. Relative to the failure of open-hearth furnaces to receive scrap for steel?

Mr. CABOT. Yes.

The CHAIRMAN. If you will pardon a suggestion, will you summarize this first, which will permit me or any other member of the committee who happens to be present to ask you questions, at which time you may enlarge upon it?

Mr. CABOT. Yes.

The CHAIRMAN. May I say this: The reason this committee is so interested in scrap is that Mr. Odium came before our committee some weeks ago and he told us how little steel it would take to keep a large number of manufacturing industries in business, particularly those that use so little steel in proportion to the value of the finished product that is made, and knowing that just a little more steel will keep so many more small businesses going and keep labor employed, it has been our purpose to endeavor to find out some way or means that we can increase the production of steel, and that is especially true in view of the fact that it looks like this year we will not have an increase but that we will have a decrease of three to nine million tons under what it was last year, which is an alarming figure.

Any time we can get more steel made, we know it will go to the little businesses, because they are the ones that it is taken from for the war effort. We want to find every way and means possible to get this scrap in.

Mr. CABOT. That is fine, and we would like to tell you exactly what we are doing and solicit your aid and criticism and suggestions in an effort to accomplish the results you have in mind.

The CHAIRMAN. Very well. Go right ahead, Mr. Cabot.

Mr. CABOT. In the last war I was a lieutenant of field artillery. After the war I established my own business, which was the investment trust business, and I was president of that, the State Street Investment Corporation, and I have been a director of many other enterprises in Boston until I was asked to come down here last June and aid in the war effort as Deputy Chief of what was then the Conservation Section of the Office of Production Management.

About 3 months ago the Bureau of Industrial Conservation was set up under the Office of Production Management and more recently it continues as an independent bureau under the War Production Board.

I have here a chart which will explain to you the general—

The CHAIRMAN. We are not so greatly interested in that, Mr. Cabot. Personally, I am not. I am more interested in what you are doing and how you are going to do it.

So far as the set-up is concerned, it is important to you, but not to this committee.

Mr. CABOT. Our activities, that is, the activities of the Bureau, are divided into four main parts, three of which I don't believe concern you very much, but the fourth of which does. I will just take a moment, if I may, to tell you the three that are unimportant for the present discussion.

The CHAIRMAN. Why do that? Why discuss the unimportant things? Go right ahead to the main things.

Mr. CABOT. We have a conservation and substitution plan, a specification plan, and a simplification branch and, fourth, the salvage branch.

Our duties in salvage are to first create the saving of and then increment the flow of these secondary or waste materials back into the industry to the limit of our ability and the help we can get to do that. That states the problem very simply.

The CHAIRMAN. How are you doing it?

Mr. CABOT. We divided that activity into four parts. The first of those has to be industrial salvage. That means the secondary and waste materials that occur in the manufacturing process. It includes what I know you are familiar with, both home scrap and purchase scrap. It includes the dormant scrap that exists in most manufacturing establishments, as well as the scrap that is made in the process of manufacture. That is the problem in that branch.

The method of attack on that problem has been from several directions. The first of those methods is what we call the Erie plan. We first put this plan into operation in Erie, Pa. I imagine you would like to have for your record an outline of the plan.

The CHAIRMAN. I think it would be well to insert this in the record and it will be inserted at the conclusion of your remarks. Will you briefly outline it?

Mr. CABOT. That plan operates somewhat as follows: Field men from our branch of industrial conservation go into the industrial section. We have divided the country up into some 34 industrial sections. That man goes into Erie, Pa., and he summons the top executives of the manufacturing establishments in that vicinity.

We have found by experiment that it is necessary to get the top men, the boss men.

We ask the boss man to see to it that (1) someone is immediately put in charge of salvage operations in that plant with complete authority to act and act now. We ask him to see to it that all of the other manufacturing establishments in that industrial area have a man similarly placed in each of the manufacturing firms, and we suggest that they organize themselves into a committee and we aid them in the organization.

When a man has been placed in charge of salvage activities of a given plant we send our experts in to see that he is producing the results that we desire.

The CHAIRMAN. How many field men do you have to assist in that effort?

Mr. CABOT. In that particular branch we are rather limited and have only at the present time about eight to ten field men to cover the whole of the United States on that particular activity. Therefore, we have been forced to move, not into all these industrial locations at one time, but from one to another.

The CHAIRMAN. Let's take these salvage men at some big industrial plant of some kind. It is his duty to pick out the scrap and have it delivered?

Mr. CABOT. It is his duty to do several things. I think I can best give you an example of that by giving you an actual experience.

The CHAIRMAN. You are actually getting the scrap that way, are you?

Mr. CABOT. Yes, sir.

The CHAIRMAN. All right, give one experience.

Mr. CABOT. Last June we were very short of aluminum. We sent one of our field men to visit every large user of primary aluminum, and that was primarily the airplane plants of the country.

We found that the salvage operation was excellent in one or two, very poor in a number, and fair in a majority.

Our salvage expert learned the best procedure from the company that conducted this operation best, then went around to each of the other plants, talked to the president or chief executive, told him he must put a man in charge of that salvage operation. If secondary aluminum becomes mixed or contaminated with any of these other metals it is well nigh impossible at a later date in a smelting process to refine it again.

In other words, the value of the secondary aluminum is largely lost.

Before the man made this trip the flow of secondary aluminum from these plants amounted to 450,000 pounds monthly. Within 60 days after he made this trip the flow of secondary aluminum increased to 2,300,000 pounds.

That is a specific example of what can be done and what we are doing, and I think can best give to you the method of operation of the so-called Erie plan.

I could go on and give you a great many examples of the type of increment of salvage we have been able to bring about by inaugurating that Erie plan in a great many industrial sections. We have covered more than half the country today and will very rapidly cover the rest of it.

Have you any questions you would like to ask me on that?

The CHAIRMAN. Are you really getting results on this industrial plan?

Mr. CABOT. We are, very definitely. Would you like me to give you the types of results?

The CHAIRMAN. Yes; I would.

Mr. CABOT. I will give you just a few.

The CHAIRMAN. In other words, you are finding by picking out the most efficient method of the best companies and giving the information to the executives of the other companies, that that enables you to find a lot of scrap that otherwise has been unnoticed and would not be brought in?

Mr. CABOT. That is substantially true. There are two phases to the question. One, the generated scrap which comes out of normal manufacturing activities, turnings, ends, and so forth. In that case the biggest problem is not the loss of that, but there it is the question of increasing the rapidity of flow. If X tons of scrap moves twice as fast, the result is the same as if you had twice as much scrap.

The CHAIRMAN. It is clear to me, and I think the record will be clear to anyone reading it, as to how you are doing that. How do you get scrap out of the mines? Have you got much scrap out of the coal mines?

Mr. CABOT. Yes, sir. In the same way, although that, in my opinion, is still a large field for additional tonnage.

You may know that one of the difficulties we ran into there—I think one of your former witnesses testified to that—was the question of labor and labor costs.

I think one of the unions would not permit the use of their men unless they were paid time and a half or double time, or something of the sort.

The CHAIRMAN. Would not permit other men to go in and remove it?

Mr. CABOT. I believe they would if the finances were made available to finance such a proposition.

The CHAIRMAN. How much scrap do you think is available in these mines, not used?

Mr. CABOT. I have no idea.

The CHAIRMAN. No estimate?

Mr. CABOT. No estimate. I simply state this on the figure end of it. We concede that it is our duty to bring out every pound we possibly can and even if we have it all we won't have too much.

The CHAIRMAN. Have you tried to negotiate with the mine owners and the men to get the scrap removed from the mine recently?

Mr. CABOT. Yes; we have. With the mine owners, but not with the men.

The CHAIRMAN. What is the problem there? It occurs to me that you have a bottleneck there.

Mr. CABOT. I think the biggest problem is that in the mines the value of the salvage material is not equal to the cost of getting it salvaged.

The CHAIRMAN. But under this new price-control bill when money is available, under the buy-and-sell provision, they can pay twice as much for scrap, and the same way with copper.

Mr. CABOT. Who?

The CHAIRMAN. The Government can.

Mr. CABOT. We would have to get a special dispensation from the Office of Price Administration.

The CHAIRMAN. Certainly you would get it because they would be the ones that were doing it.

Mr. CABOT. That would make the problem easier.

The CHAIRMAN. An increased price would bring the scrap out of the mines.

Mr. CABOT. Yes; but don't mistake me, that I think that the O. P. A. generally should increase its price ceiling.

The CHAIRMAN. The object of the buy-and-sell provision is to make that unnecessary. It came about through copper. Copper can be produced profitably for 12 cents a pound, but in order to get copper you have to pay 30 or 40 or 50 cents per pound. We have to have copper regardless of price, so it is better to pay 40 or 50 cents a pound for 10 percent of the copper produced by the mines where the production cost is so high, than it is to increase the whole price up to that, including the 90 percent that can operate for 12 cents.

The same with scrap. Scrap should be sold for \$20. It is unnecessary to raise the price of all scrap in order to get this stuff out of the mines. They could just pay \$30 to get it out of the mines.

And you think under that you could get a large amount of scrap?

Mr. CABOT. Yes; I do.

You are asking for examples of results of the Erie plan.

The CHAIRMAN. You say it works. Suppose you put the typical examples in the record along with the testimony, if you don't mind.

What about the farms? Have you had any campaign to get the scrap off the farms?

Mr. CABOT. Yes. Now, I have not really given you a full description of the industrial salvage activities, because, as well as using the so-called Erie plan we are attacking the problem on an industry basis. In other words, the Erie plan is a geographic approach. The industry plan is nongeographic.

The CHAIRMAN. The industrial area approach?

Mr. CABOT. For example, we apply the same principles to the whole utility industry as in the Erie area.

The CHAIRMAN. What about abandoned structures like bridges? They were mentioned yesterday.

Mr. CABOT. I will hit that at a later date, if I may, in the presentation of our program.

The CHAIRMAN. And also streetcar tracks, and things.

Mr. CABOT. I will make a note to cover that.

The second of our salvage activities is what we call general salvage. That has to do with the problem of bringing back into production the secondary and waste materials that are in the homes and farms and small garages and shops of the country.

I have copies of that program here, with me [document handed to chairman].

The CHAIRMAN. I have seen one of these.

Mr. CABOT. That describes the organizational feature.

The CHAIRMAN. But how many men do you have working for you to do this?

Mr. CABOT. Let me describe a typical State and then you will see.

The CHAIRMAN. All right.

Mr. CABOT. The first State that we went into was Maryland, for a variety of reasons. We asked the Governor of Maryland to appoint a chairman of the State salvage committee, such committee to be a committee of the State council of defense.

That chairman then surrounds himself with a committee of the type of leading citizen we recommend in this program. That is a type of voluntary committee, including the chairman, whose services are voluntary.

To that committee our Bureau assigns a paid employee of our Bureau whom we call the executive secretary.

The CHAIRMAN. That is the State committee?

Mr. CABOT. That is right, sir. That executive secretary has an office with two stenographers to help him in his work. That substantially is the complete paid personnel of the salvage operation.

The CHAIRMAN. In any particular State?

Mr. CABOT. In a particular State. It is not quite so, because more recently we have found it necessary to put in assistant executive secretaries in some of the larger cities like New York and Chicago.

The CHAIRMAN. Now, this was established in Baltimore, I presume?

Mr. CABOT. Yes.

The CHAIRMAN. What do they do to get the cooperation of people in Montgomery County, for instance?

Mr. CABOT. In the first place, it is their duty to see to it that local committees are formed in every county and in every township or hamlet, or what have you.

The CHAIRMAN. Do you have just one salvage committee, or one for waste paper and one for—

Mr. CABOT. One salvage committee for everything.

The CHAIRMAN. Including waste paper, old rags, scrap, and old rubber?

Mr. CABOT. That is correct.

The CHAIRMAN. And then county committees and local precincts?

Mr. CABOT. Yes, sir.

The CHAIRMAN. And political subdivisions?

Mr. CABOT. Yes.

The CHAIRMAN. Have you been successful in organizing any State?

Mr. CABOT. Yes, sir.

The CHAIRMAN. Which one?

Mr. CABOT. I would say Maryland, or the District of Columbia.

The CHAIRMAN. How long have you been working?

Mr. CABOT. This will give you an idea of the status of the organization on general salvage [presenting large chart to the Chairman].

The CHAIRMAN. The blood red indicates what?

Mr. CABOT. Those are organized down to the local salvage committees.

The CHAIRMAN. And they are working effectively now?

Mr. CABOT. They are, and in Maryland, for example, the best indications we have is that the increment of the flow of all these materials, not exclusively speaking of iron and steel, is up some 50 percent, and on the question of waste paper the city authorities of Baltimore were a little disturbed because they have not the necessary paper in their garbage to incinerate it.

The CHAIRMAN. And they may have to buy fuel?

Mr. CABOT. Fuel or oil to do the job. So much of the paper has been extracted already for use as waste paper.

The CHAIRMAN. That only shows a comparatively few States that are thoroughly organized.

Mr. CABOT. That is right, sir.

The CHAIRMAN. How long have you been working on this?

Mr. CABOT. Less than 2 months. You see, the Bureau was formed about 2 months ago.

The CHAIRMAN. Let me ask you a personal question. Suppose one of your volunteer workers locates 5 tons of scrap in the back yard or an old garage. What would be the procedure to get that scrap moving?

Mr. CABOT. We have throughout this program felt for a variety of reasons that the existing normal channels of trade are the ones that should be used and encouraged, and that it should be the Government's attitude and endeavor to encourage any and all people in the collection of this material that is so urgently needed, so specifically we say to that man, "Do you want either to sell your material or do you want to give it away?" Some want one and some want the other.

If he wants to give it away we suggest to him that he call on one of the many local collecting agencies such as the Boy Scouts or the Salvation Army, or the Good Will Industries, and so forth. There are a great many of them. They then send around a truck and pick that stuff up.

The CHAIRMAN. You have got it now in the truck of the Salvation Army.

Mr. CABOT. Yes.

The CHAIRMAN. What does the Salvation Army do with it?

Mr. CABOT. The Salvation Army takes it to their yard, and I am informed that they do a certain amount of what the commercial dealer does, segregating, sorting, and cleaning.

The CHAIRMAN. And preparing it for market?

Mr. CABOT. They don't do the full preparation. They do a certain amount and they sell it to a dealer.

The CHAIRMAN. A scrap dealer?

Mr. CABOT. Yes.

The CHAIRMAN. And he buys it on a certain grade, doesn't he?

Mr. CABOT. Yes, sir.

The CHAIRMAN. There has been some testimony here that the scrap dealers have been upping the grade on this scrap. In other words, they would buy it at a certain price from the charitable institutions—say \$14 a ton—and then, when they sell to the industry, which is anxious to get it at any price, they will grade it to \$20 a ton. Do you have any way of protection against that?

Mr. CABOT. I should say that is something I personally know very little about. We have felt that was the province of Price Administration, the policing of their prices.

The CHAIRMAN. I can see where it would be a little outside the scope of your authority.

Mr. CABOT. Our duties are to stimulate the flow of this material and to check it to the point where it gets into the hands of the segregated waste dealer.

The CHAIRMAN. We have evidence that on scrap metal in particular, about 15 brokers have divided up the country into areas, one for each area, and this broker extends credit to the accumulators of scrap. He furnishes the money to them on what is known as a demand note, and they buy up scrap in that area; and, although he owns no scrap, he controls it because, whenever he wants to sell scrap to a particular industry, he can call the notes and have the people bring the scrap in.

Have you run into anything like that that has a tendency to impede the progress of the scrap movement?

Mr. CABOT. I have not, sir. But I want to make it clear that our duties only go to the point of getting the material started into commercial channels, and I am not the best authority on that.

The CHAIRMAN. It would not be best for you to handle that, possibly. How long will it take you to organize the entire country—the entire 48 States?

Mr. CABOT. I think it will be organized in another few months, or less.

The CHAIRMAN. That is fine progress. And in that you get the help not only of the charitable organizations that profit by it, but you get the help of civic-minded organizations such as Lions clubs, Kiwanis, and so on?

Mr. CABOT. And the American Legion has been extremely helpful.

The CHAIRMAN. You need not show us the poster or anything like that.

Mr. CABOT. I can tell you very quickly. [Displaying chart to the chairman.]

That is the program that we furnish to the workers. It tells the voluntary workers throughout the country what to do.

This is the household people. We want to get into every home in America and this tells the housewife or home owner what he or she should do.

This is the farm problem.

Now, this is a little different. Here is something that has been sent to about 200,000 small retail establishments throughout the country. We send them a little instruction sheet which asks them to do their part. If they comply and send it back, and we have already gotten 25,000 answers, we send the poster that they put in their window.

Some of the materials describe what the Boy Scouts are doing.

Here is what the boys' camps are doing.

The CHAIRMAN. Now, then, you have some very attractive posters and bulletins there.

Mr. CABOT. Yes, sir.

The CHAIRMAN. Who prints these?

Mr. CABOT. The Government Printing Office.

The CHAIRMAN. That is another thought. You have these distributed all over the Nation, don't you?

Mr. CABOT. Yes.

The CHAIRMAN. Why can't you use a local printer for that? These printing shops are going to be pretty hard hit.

Mr. CABOT. It would be all right with me, but I have orders that I am not allowed to get things printed and have no appropriation for that.

The CHAIRMAN. Under your present set-up that is true. But suppose arrangements were made for you to have the money. You could just as well get that done locally, couldn't you?

Mr. CABOT. These particular things I am not so sure about, but there is a great deal of publicity matter that, for example, is of interest to that particular State or particular community, which would not be of interest or applicable to the country as a whole.

The CHAIRMAN. And, therefore, it would be best to have it printed locally?

Mr. CABOT. I think it would.

The CHAIRMAN. And you take the small local paper, the weekly. They have a print shop and they are going to suffer.

The automobile advertising has been tremendous. It has been cut off absolutely. The advertising is gone.

You take advertising of refrigerators and radios, and dozens and hundreds of different things. That money is no longer available.

So the newspaper is certainly hard hit. While we are trying to help the tire dealer and the automobile dealer, if we can use a local printer, it occurs to me it should be helpful to small business to do that.

Mr. CABOT. Yes. This will give you an idea of what the local printers are doing.

The CHAIRMAN. They are carrying your advertising free?

Mr. CABOT. In some instances the consumers of these waste materials who are very desirous of getting them and have by and large cooperated

with the Government, have put out money on their own behalf to pay for local advertising.

The CHAIRMAN. I imagine that you will find the amount of money, compared to the publicity you have got, very small.

Mr. CABOT. You would be surprised, sir. The waste paper consuming industry, the paperboard manufacturers, which is not a big industry, have collected a sum of \$750,000 which they will have expended by February 1, and are meeting again to collect another \$500,000 to expend for advertising.

The CHAIRMAN. Who is doing that?

Mr. CABOT. The paperboard industry.

The CHAIRMAN. How much is your printing bill so far in this, do you know?

Mr. CABOT. I don't know.

The CHAIRMAN. Would it run \$100,000 to \$200,000?

Mr. CABOT. I don't believe so, but I don't know.

The CHAIRMAN. As the campaign increases the amount, of course, will be increased in proportion.

Mr. CABOT. That is correct.

The CHAIRMAN. And you personally would have no objection to farming it out to the small print shops if it is made possible through your rules and regulations?

Mr. CABOT. I can personally see no objection, but again I should say that the rules and regulations covering Government printing—

The CHAIRMAN. I understand that.

Mr. CABOT. Here is a lot of private printing that has been gotten out by private printers and not Government printers.

The CHAIRMAN. I notice one, a picture of Uncle Sam getting the scrap and waste paper and reading, "We need scrap metal." And then "Conservation Committee, call Cherry 2780." Where is that?

Mr. CABOT. That is Cincinnati.

The CHAIRMAN. And another one, "Uncle Sam needs your waste material."

Mr. HALL. Mr. Cabot, when these voluntary organizations collect this scrap, they sell to the junk dealer?

Mr. CABOT. We do not encourage the voluntary salvage committees, although we obviously do not tell them at the time, going into the junk business. We encourage them to aid the flow and educate the people.

For example, take a typical local committee. It has a little office and the widow down the street has made a collection of waste paper and a few coat hangers, and rubber tires. She wants to give it away but doesn't know who to give it to, so she calls the local salvage committee. The committee says, "Who would you like to give it to? We have half a dozen organizations that would be glad to get that." She says, "I think I would like to give it to the Salvation Army."

Or, suppose she wants to sell it—

Mr. HALL. Let's get to the Salvation Army. After the Salvation Army gets it the junk dealer comes along and in some instances, I understand, they will give \$10 for something that is worth \$100. The Salvation Army is happy, of course, to get the \$10, but aren't they more or less at the mercy of the junk dealer?

Mr. CABOT. I don't think so. They are experts.

Mr. HALL. Perhaps I picked the wrong example. Let's take some other organization that has collected this and hopes to make a little money to spend for charitable purposes. Aren't they completely at the mercy of the junk dealer?

Mr. CABOT. I don't think I want to say completely at the mercy, because I assume, with good native ability in any of our American communities, that when a collection of waste material has been made there will be somebody with some knowledge of the selling side, and if he suspects dealer A is taking advantage of him he will get hold of dealer B.

Mr. HALL. But when you get to the small communities you get to the town that has only one dealer.

Mr. CABOT. And in some communities you don't have any.

Mr. HALL. I have been told that they are completely at the mercy of the junk dealers. Of course, they are happy to get the \$10 for something that is worth \$50, but that dealer makes a big profit and has every fellow in the village working for him for nothing.

Mr. CABOT. Of course, we are out for scrap and so are you, and in my opinion, that is not as widespread as rumor would have it. There are instances of it, of course.

Mr. HALL. I hope you are right.

Mr. CABOT. But I don't believe that the junk dealers are becoming millionaires.

The CHAIRMAN. No one has accused them of becoming millionaires. It is a group of about 15 that have the business pretty well dominated if the testimony before our committee is correct.

Mr. CABOT. That, as I told you, sir, is a field with which I don't come in contact and I am not an expert on it.

The CHAIRMAN. I think you have told a very interesting story and something I am deeply interested in.

I wondered what the Government was doing to try to get this scrap out. It occurs to me you have a very fine effective campaign already in execution.

Mr. CABOT. We have more, if you would like to hear more.

The CHAIRMAN. You have told us about how you are getting it out and the advertising and how the local committees and State committees are set up. What other points do you have in mind?

Mr. CABOT. I think you would probably be particularly interested in the automobile graveyard problem.

The CHAIRMAN. Do you handle that differently from this?

Mr. CABOT. Yes; that is a specialized problem.

The CHAIRMAN. Suppose you tell us how you get that scrap out?

Mr. CABOT. I want to make it clear to you that it was only with the creation of the War Production Board that the responsibility of the automobile graveyard was put in the hands of the Bureau of Industrial Conservation.

Prior to that time the automobile graveyard problem was the problem of the iron and steel branch of the Office of Production Management, but with the creation of the War Production Board, Mr. Nelson, I believe, felt it would be advisable to concentrate all the salvage collecting agencies in one place. It didn't seem a good idea to have cotton rags in one hand and a waste-paper campaign in another.

The CHAIRMAN. And you have it under one agency under Mr. Nelson now?

Mr. CABOT. Yes. But, as you can see, we have hardly had this graveyard problem for 2 weeks. As soon as that problem was given to us the very first thing I did, of course, was to try and staff our Bureau so that we could handle it.

The particular man wanted to head that activity happened to be in St. Paul. This was Thursday night. I asked him to fly back and he got to the office Saturday morning. In the meantime we started a test campaign and sent representatives from our Bureau with purchasers to automobile graveyards, with an Army officer. Actually they visited, I believe, 24 graveyards.

The CHAIRMAN. Were these purchasers scrap dealers?

Mr. CABOT. They varied. In one instance it was a scrap dealer.

The CHAIRMAN. Name him. Do you have his name in mind?

Mr. CABOT. I don't recall his name at this time, but I can unquestionably get it for you.

In another instance it was a steel mill and in another instance it was, I think, a scrap dealer acting as agent for an ultimate consumer.

The CHAIRMAN. Have you actually brought the seller and the purchaser together?

Mr. CABOT. We have done that.

The CHAIRMAN. Do you go through brokers to do it or do you do it directly?

Mr. CABOT. We did it both ways, through brokers and dealers and we did it direct and we did it through the ultimate consumers' agents, in order to test which of the methods was best.

The CHAIRMAN. Have you decided yet which was best?

Mr. CABOT. We believe all should be used. In the 24 graveyards we contacted, our men definitely reported to us that it was bringing together a willing buyer and a willing seller, which surprised and amazed me.

We, therefore, arranged with the iron and steel industry that they would see to it that either their buyers, their agents or buyers for the dealers, would contact all of the graveyards in the United States, and offer them a fair purchase price for the material in their yards.

I will read you a very interesting telegram that I have in front of me [reading]:

Representative members of the steel industry have agreed to see to it that fair offers are made by agents of the industry, scrap dealers or others, to the auto graveyard owners and will in this and other matters fully cooperate with the Bureau of Industrial Conservation in moving available scrap from this source.

And it is signed "American Iron and Steel Institute, Tower."

The automobile graveyard owners, of course, are to be permitted to remove the parts so that they can continue in the automobile parts business, because we all know that is becoming increasingly necessary. Each of these buyers, whether it be a scrap-iron dealer or a foundry, will make a report to our Bureau, which will be a statement on the face of it, showing the name of the yard, the man's name, the approximate tonnage or number of cars he has in the yard, the price offered for the iron and steel scrap, and, of course, the price has to be such that the ultimate cost to the consuming mill is not above O. P. A.'s price. Then he shows whether he sold or didn't sell, and, if not, why not. If he didn't sell it, we make an examination of that yard, and see if the price offered him was fair. If the price was not fair, we see

to it that we get another purchaser to offer him a fair price. If, on the other hand, the price offered to that graveyard operator was a fair price and he refused to sell for no good reason, we propose to use our requisitioning power to requisition that man's yard to take that material and make it immediately available for the mills and foundries of the country.

There are 30,000 automobile graveyards in the United States.

The CHAIRMAN. Thirty thousand is about ten to the county.

Mr. CABOT. I think that is about right.

The CHAIRMAN. Go ahead.

Mr. CABOT. We have in our budget for this automobile group an appropriation which would only permit us, at most, including stenographers, secretaries, and so forth, to employ about 30 people. That is 1,000 graveyards per person, which is quite a job.

We have, therefore, to count on the cooperation of local people again.

The CHAIRMAN. What about the quantity of scrap in these 30,000 graveyards? How much scrap do you expect to salvage?

Mr. CABOT. I can only quote to you the figures of those who are more expert in the field than I myself. I think Mr. Borinstein mentioned an estimated figure of 3,000,000 tons.

The CHAIRMAN. That seems rather low for 30,000.

Mr. CABOT. Some of these graveyards have pretty few cars.

The CHAIRMAN. Each car is expected to average about a ton?

Mr. CABOT. About three-quarters of a ton, when it is prepared scrap.

The CHAIRMAN. Suppose there are 10 cars to the graveyard?

Mr. CABOT. That is about 3,000,000. It would be about two and a half million tons, if it is three-quarters to the car.

We have asked specifically in this instance, the iron and steel industry of the United States, to take it upon themselves, with any aid that can be given to them, to see to it that fair offers are made to these graveyard operators.

The CHAIRMAN. There is one thing about that that I think you should consider, that Mr. Hall brought up. I don't like the idea of volunteer workers out working their fingernails off and turning what they do in to some person who profits unduly by it. I am willing for them to make a fair profit, but I am of the opinion from the testimony we have heard here that there is something to the charge that a few people are dominating the scrap industry and if it is true, and you certainly have good reason to know one way or the other, or should be after a thorough investigation, I hope you find means and ways of having a direct tunnel from the accumulators of this scrap to the consumer, without going through people who are making an undue profit on it.

Mr. CABOT. We certainly agree with you that it would be very unfortunate, to put it mildly, to have undue profiteering on the part of dealers or anybody else in this effort, and we are certainly with you 100 percent in wanting to prevent any such thing and will do everything in our power to do so.

Before I end, unless you have some questions, I would like to give you my reactions first to what Congressman Kirwan had to say before your committee, and also on the floor of the House.

The CHAIRMAN. You mean his idea about accumulating the scrap?

Mr. CABOT. Yes, sir.

The CHAIRMAN. He suggests that the highway department have something to do with it, didn't he?

Mr. CABOT. Yes, sir.

The CHAIRMAN. Is there any objection to that?

Mr. CABOT. Yes, sir.

On January 5, 1942, Congressman Michael Kirwan, of Ohio, made remarks on the floor of the House, as reported in the Congressional Record under that date, page 12, relative to the need for a greater flow of iron and steel scrap. There is no question but that this is so. He suggested as a method for bringing this scrap out and getting it back into war industries, that all of the Governors be summoned by the President to Washington, and that a national scrap collection day be designated—

The CHAIRMAN. Suppose you insert that in the record? You have that written out, haven't you?

We will send these transcripts of the hearings to all the members, and it will be printed in the morning. I see there is a dual method of approach.

Mr. CABOT. The biggest difficulty with it, in my opinion, is that it doesn't answer a great many of the problems. In the first place, you can't have a 1-day campaign. As you get human interest up, you drop it, and we have got to have a continuing flow of this material.

The CHAIRMAN. I don't see how you could have a better campaign than you have outlined here. I am very much impressed with it and I desire to commend you for the fine work that has been done.

Have you any questions, Mr. Hall?

Mr. HALL. No questions.

The CHAIRMAN. If you want to extend your remarks, Mr. Cabot, it will be perfectly all right.

Mr. CABOT. Relative to the testimony of Mr. Ruttenberg, I would like to pray your indulgence.

The CHAIRMAN. All right.

Mr. CABOT. Yesterday, in testifying before your committee, Mr. Harold J. Ruttenberg of the C. I. O. steelworkers, according to this morning's newspapers, stated that it was his belief that there really was not any long-time shortage of scrap iron and steel, and that, in reality, the alleged shortage was being proclaimed by the steel companies and certain large iron- and steel-scrap dealers, for the purpose of (a) forcing an increase in scrap-iron and steel prices and (b) preventing an expansion of steel-mill capacity.

I do not believe this to be true. In the first place, we cannot wait for a "long-time" supply of iron and steel scrap to appear. The Japs and Germans won't wait. We must have the scrap now.

In the second place, there have been a variety of causes that have led to the current shortage, which should be mentioned.

(1) Exports of scrap in recent years, particularly large exports to Japan;

(2) Exports of finished steel products with no resultant scrap returns to this country; and

(3) Higher wages and increased employment have led some peddlers and collectors to go into other activities.

Secondly, in spite of the above, there has been a rapid expansion of steel activities over the last 2 years which, in and of itself, has necessitated the greater use of scrap. Incidentally, this does not tie in with the alleged holding back of the steel producers. Not only have the capacities of the steel mills increased, but their rate of operations is far nearer 100 percent of capacity than it has been for several years.

The CHAIRMAN. What did you say about so much scrap going to Japan?

Mr. CABOT. That is one reason for the shortage of scrap at the present time.

The CHAIRMAN. How much of it went to Japan; do you know?

Mr. CABOT. I imagine the Bureau of Mines can give you that figure.

The CHAIRMAN. The figures do not impress me as being so large. I saw the figures on it, and, of course, there were two good reasons why it went; one being that we were appeasing Japan in a way because we had to build up a rubber reserve. In the last year we got 1,000,000 tons of rubber. If Pearl Harbor had happened 12 months ago we would not have had enough rubber to furnish the Army and Navy for 6 months. The other reason is purely economic. It is the freight-rate structure in this country which is such that the cost of shipping the scrap from the ports to the interior is \$4 a ton, whereas they could ship from the ports to the interior of Japan or Germany for \$3 a ton.

Mr. CABOT. Fourth, there has not been an increase in ceiling prices for scrap, and the Office of Price Administration has rather clearly indicated that there would not be such an increase and, on September 1, we affirmed such policy to a group of steel mills and iron and steel scrap dealers.

Also, representatives of the steel companies have constantly assured us that in their opinion existing price ceilings were adequate.

Fifth, the iron and steel companies have actively taken a major part in procuring and bringing out dormant scrap. We have insisted that they do this and have agreed to give them and all others working to bring out scrap, all possible assistance.

Sixth, in Mr. Borinstein's testimony he gave you figures, compiled by the United States Bureau of Mines, which indicated that with a few minor exceptions there had not been hoarding on the part of the large iron and steel dealers and that, as a matter of fact, inventories were greatly reduced in recent months. And he quoted the figure that as of approximately a year ago the Government's stocks were 1,495,400 tons, whereas recently they were less than half that figure or 713,538.

The CHAIRMAN. Did you analyze those figures with reference to prepared and unprepared scrap? Even Mr. Borinstein's figures disclosed that prepared scrap actually increased during that time.

Mr. CABOT. I would be very much surprised.

The CHAIRMAN. That is the only kind that can be sold.

Mr. CABOT. Surely.

Seventh, in spite of all the above the flow of iron and steel scrap has attained, on the basis of the most recent available figures, a new all-time peak, and on the basis of these figures the average monthly

consumption of scrap is 4,451,000 tons, as against 3,474,000 tons for the same period a year ago. This represents an increase of 28 percent.

Finally, we do not believe that the recriminations of one group against another is of great value at this particular time when we need more urgently than ever before a united people who will in this instance all get together and do whatever they can to augment the flow of iron and steel scrap.

The CHAIRMAN. Thank you very much, Mr. Cabot. We appreciate your testimony.

Tomorrow morning the record will be printed and you can make any additional statement you desire.

Mr. CABOT. Thank you very much.

(The following was submitted for the record:)

TO BUSINESS AND INDUSTRIAL PAPER EDITORS

Attached is further information on the plan of industrial salvage, as worked out by leading manufacturers of Erie, Pa., supplementing release sent to you January 2, 1942. The Industrial Salvage Section of the Bureau of Industrial Conservation of the Office of Production Management will sponsor the inauguration of similar programs in thirty-odd industrial centers in the country in the next few months.

Enclosed is reproduction of the "Get in the Scrap" salvage poster, prepared for the Bureau of the Division of Information, which will be displayed in the plants cooperating in the industrial conservation program.

THE ERIE PLAN OF INDUSTRIAL CONSERVATION

FOREWORD

(Following is an outline of the plan of industrial conservation which was worked out and put into effect by leading manufacturing interests of Erie, Pa., and which has the full endorsement and approval of the Office of Production Management Bureau of Industrial Conservation. The plan was designed to secure the active participation of industry in the matter of the conservation of raw materials and the full utilization of scrap and by-products, surplus materials and parts, including the scrapping of obsolete machinery. It has produced excellent results.)

I. Leading executives of the city's large and small industries, and trade and business associations,¹ attended an organization meeting, and set up an executive committee from within the members of their own group.

II. The executive committee established a subexecutive committee, by selecting and securing the services of other executives engaged in the manufacture of products containing critical commodities, to-wit:

- (a) Iron and steel scrap.
- (b) Nonferrous metals (brass, copper, aluminum, lead, and zinc).
- (c) Waste paper.
- (d) Scrap rubber.
- (e) Cotton and woolen rags.
- (f) Miscellaneous products.

III. The executive committee and the subexecutive committee, working together, set up a program of aims and objections as follows:

- (a) Wrecking of abandoned and obsolete machinery and equipment.
- (b) Speed the return of scrap and waste materials through existing channels to mills and refineries.
- (c) Utilization of all critical materials to the best advantage.
- (d) Minimize waste and spoilage.
- (e) Selective handling and segregation of scrap and overage at the source.
- (f) Avoidance of contamination.

¹ In Erie the Erie Chapter of the National Association of Manufacturers and the Erie Foremen's Association were represented on the executive committee. In other cities other associations may be represented.

(p) Reuse, wherever possible, of blanks, cut downs, short ends, clippings, etc.

IV. To carry out these aims and objectives the executive committees set up the following salvage procedure and methods:

(a) Arranged in every plant for the appointment of a "salvage department manager," or for the delegation of some one individual in each plant to be responsible for the wrecking of obsolete machinery, equipment, etc.

(b) Arranged to train men, if necessary, in the definition of scrap, its nature, its handling, and its salvage.

(NOTE.—Small concerns were able to allot a man part time only, or assign a man for full time only during the period of the initial clean-up campaign. Larger operations required the full-time work of one or more men, to continue indefinitely.)

(c) Arranged for a system of periodic reports on scrap collected to be made by every plant, to the executive committee.

(NOTE.—Weekly reports were considered best, at least during the first several weeks of the initial campaign.)

V. The individual "salvage managers" in the various plants designated their own plant and departmental salvage committees, system of handling, procedure, reporting, etc.

(a) The salvage-managers group arranged in their own plants the proper system to be followed in the matter of wrecking obsolete machinery, disposing of out-of-date or discontinued finished products and other stored materials not likely to be used in the immediate future.

(b) The salvage-managers group also arranged for meetings of their own group to report plans, progress, and results for the benefit of all plants cooperating.

(c) The salvage-managers group adopted a simple 3-point salvage program to be put into effect by employees in each of the individual plants, as follows:

1. Conserve material, minimize waste and spoilage.
2. Separate unavoidable scrap and cut down at the source. Avoid contamination.
3. Sort blanks, short ends, cut downs, clippings, with a view to their reuse either in the department or plant or by some other department or plant in the district.

VI. At the same time that the mechanics of the foregoing organization plan were set in motion, the executive committee and the subexecutive committee prepared to be ready to serve in the following capacities:

(a) Formulate instruction for those heading up the salvage activity.

(b) Furnishing of technical advice.

1. To indicate the proper collection, segregation, and disposal of scrap by classification into iron, steel, nonferrous, etc.

2. To supply data pertaining to all Government regulations. (Office of Production Management has set up control of the channelling of certain items of scrap, to wit: Aluminum, copper scrap, brass mill scrap, alloy steel, rubber, and others.)

3. To list for purposes of channelling and assisting in the disposal of scrap all buyers, dealers, brokers, or consumers of scrap, according to the classifications which are established. (NOTE.—It was proposed only to list the local buyers, but the committee arranged to be able on request to furnish data to assist wherever necessary.)

4. To distribute Office of Production Management posters and general pamphlets of informative nature. (NOTE.—This and other Office of Production Management activities are covered later in this outline.)

5. To enlist the support of local manufacturing, production, and trade associations for the purpose of bringing to the attention of all classes of management the advantages accruing through such activity.

6. To extend the work of the committee as future developments require to follow up all phases of the campaign, and keep it alive, active, and continuous.

7. To assemble and keep all records of scrap collected and salvaged by all plants, as reported by the latter, and evaluate the complete effort in a report to Office of Production Management.

VII. The executive committees and the salvage managers group further assigned to themselves the job of finding out and reporting for future guidance the answers to the following questions:

(a) What considerations constitute the resistance to the extension of practices and procedures proven practical and profitable in certain organizations to other organizations apparently operating on a comparable basis?

(b) To what extent can practices and procedures used by large concerns be adapted feasibly to plants of moderate and small size?

(c) What is the reason, if any, for undue accumulation or sluggish movement of waste materials?

(d) What are the possibilities, if any, of putting to use in other plants equipment considered obsolete in certain plants having more advanced production methods or of speeding obsolescence and scrapping of unused equipment?

(e) What are the possibilities of utilizing in other plants, supplies considered obsolete?

(f) What items of waste, if any, are difficult to dispose of either locally or nationally?

VIII. Following the activities in connection with the sponsoring of the initial meeting of executives by the Office of Production Management's Bureau of Industrial Conservation, the executive committee appointed a member to serve as liaison contact with the Bureau's Industrial Salvage Section to secure all the information and assistance the section is prepared to furnish, to wit:

(a) Make available the services of a thoroughly experienced salvage engineer for consultation on specific problems as and if needed during the period of the program.

(b) Supply speakers and salvage consultants for important meetings.

(c) Serve as a clearing house for information on plans and procedures which have proven practical and profitable in other industries.

(d) Arrange for a system of awards to be provided by the Bureau.

(e) Supply posters, displays, notices, cartoons, press releases, and other publicity.

(NOTE.—To date one large 2-color poster headed, "Get in the scrap," has been produced and will be available to all industries throughout the country participating in salvage programs. Three other posters to be used in the continuation of the work are in production.)

(For copies of the Erie Plan of Industrial Conservation and all other information, write Office of Production Management Bureau of Industrial Conservation, Washington, D. C.)

FEBRUARY 3, 1942.

On January 5, 1942, Congressman Michael Kirwan of Ohio made remarks on the floor of the House, as reported in the Congressional Record under that date, page 12, relative to the need for a greater flow of iron and steel scrap. There is no question but that this is so. He suggested as a method for bringing this scrap out and getting it back into war industries that all of the Governors be summoned by the President to Washington and that a national scrap collection day be designated and that all householders and farmers be instructed to place their iron and steel scrap on the curbstone and that the State and municipal transportation facilities be used to collect this material.

Although the motives back of such a drive are praiseworthy, we believe that the method suggested is faulty for the following reasons:

1. The country will need scrap for a long time, certainly as long as the war lasts. Therefore, a 1-day or 1-week or 1-month drive will not answer the needs for the continuing flow of this material. Furthermore, when such a short drive is completed, public interest will lag and the stoppage of the flow of the material will become most serious.

2. A 1-day or 1-week drive would put undue burden on already overtaxed transportation facilities, which would not be the case if the material were moved over a more extended period of time.

3. At some point it is almost inevitable that the majority of the material would have to be handled by dealers or collectors in order that the material may be cleaned, segregated, sorted, baled, and generally prepared for mill consumption.

4. In view of the fact that this material must be sold or handled by dealers, it is not sound nor fair to compel the people to give it away. They should, in all fairness, have the opportunity to either sell or give the material away, as they may desire.

5. A short campaign, as against a continuing campaign, would probably temporarily glut the yards of dealers and cutters-up so that it would be impossible for them to prepare the material except over a rather extended period of time, and, therefore, the public would be lead to believe that such dealers were hoarding material and the repercussions of such opinion would be most

unfortunate. The recent aluminum pots-and-pans campaign, which by-passed the dealers, clearly demonstrated the validity of the above argument.

6. In asking householders to put material on the curb for pick-up, the biggest problem of moving the heavy material that householders cannot so place is unanswered.

In brief, we believe that the plans of the Bureau of Industrial Conservation, which provide for a continuing program, are sound and avoid the difficulties mentioned above and in the long run, therefore, will produce a larger quantity of scrap over an extended period of time. It is recognized, however, that at best it will be extremely difficult, if not impossible, to produce enough scrap in 1942 to keep all mills at 100-percent rate capacity.

PAUL C. CADET.

STATEMENT OF BENJAMIN C. MARSH, EXECUTIVE SECRETARY OF THE PEOPLE'S LOBBY, INC.

The CHAIRMAN. Do you wish to be heard?

Mr. MARSH. Yes, sir. I am Benjamin C. Marsh, executive secretary of the People's Lobby, with offices here in Washington.

The president of the People's Lobby, as some of the members of your committee know, is Bishop Francis J. McConnell, of the Methodist Church in the New York area.

I am sure we all appreciate the importance of the inquiry the committee is making as to what to do with small business of all sorts in America in the defense program, and with the permission of the committee I would like to read just a few lines from a broadcast I made last year in March under the auspices of Wake Up, America, which I think bears directly upon the subject you are considering.

Of course, I do not ask that the committee agree with what I said then or what I shall say now—

The CHAIRMAN. We will reserve that privilege.

Mr. MARSH. I was quite sure that was one of the privileges of which a congressional committee would never divest itself. [Reading:]

Public ownership of basic industries, including all defense industries, is essential to defense, because war has passed out of the stage of episode into a stage of complete organization of all the resources of a nation to ensure the maximum and most expeditious use of all the forces of a nation.

Mr. PLOESER. Do I understand you are advocating complete public ownership?

Mr. MARSH. You are fighting totalitarian nations.

Mr. PLOESER. Please answer the question.

Mr. MARSH. I think you have to have, during the war at least, such an extent of public ownership as to permit the Government to determine what industry is to do for the purpose of getting the maximum and most expeditious defense and equipment.

No other nation has been enabled to do it without a similar organization.

Britain is very rapidly coming to it.

Mr. PLOESER. Our President and the War Production Board both have the power to determine what industry can do and will do and must do in this war, without ownership.

Mr. MARSH. Whether you transfer title or not, the essence of ownership is complete control of operation. If you don't like "public ownership," I would say "complete control."

Mr. PLOESER. What you mean is private ownership and public management?

Mr. MARSH. Your statement is such an indictment of the failure of the administration to act that I didn't want to put it that way.

Mr. PLOESER. Whose statement is an indictment?

The CHAIRMAN. I don't see that it is an indictment.

Mr. MARSH. As Senator Taft pointed out in a statement made at the Indiana Bar Association 3 years ago, the administration had power to take over practically every defense agency.

The CHAIRMAN. It didn't abuse the power.

Mr. MARSH. It didn't use it, and lack of use constitutes abuse.

The CHAIRMAN. Well, that is kind of hindsight. We don't need the hindsight experts now as much as we need the foresight experts.

Mr. MARSH. Let me respectfully suggest that a body of elected representatives which did not have the foresight many of its citizens had must assume the responsibility.

The CHAIRMAN. In a democracy a few people believe one way and a lot of people another. A lot of people in the Senate would have gone the limit on war preparation 3 or 4 years ago, but there were so many that were able to block their efforts that they were unsuccessful.

You cannot indict the whole Congress because a few were able to mislead the country to the extent the country would be against these few doing what was necessary.

Mr. MARSH. The point is, the real issue is, Congress had conferred, as you pointed out, the full power upon the Executive and perhaps any executive would have done the same. Very few people were opposed to defense.

The CHAIRMAN. But, Mr. Marsh, if an executive has the power he must carry out the will of the people or he will get his neck out so far he will get it whacked off.

Mr. MARSH. Apparently it is there now.

The CHAIRMAN. I think the country is 100 percent behind the Executive now.

Mr. MARSH. But we are not prepared.

The CHAIRMAN. A few years ago we passed the Neutrality Act which everybody admits now was a mistake, because the country demanded it. After we found we had hog-tied ourselves we had to change and the Executive of the Nation—the first time I ever knew it to be true—admitted it was a mistake.

Mr. HALL. What would have happened to the Executive and the Members of Congress if we had appropriated even \$5,000,000 for defense? What would have happened to those Members?

Mr. MARSH. You either have to vote defense in the condition the world was in or you have to be prepared to adopt a more intelligent foreign policy.

Mr. PLOESER. The proposition you have made is that we should not go to complete Government ownership of our enterprises?

Mr. MARSH. Let me read this statement.

Mr. HALL. Have you advocated public ownership at any time before this crisis?

Mr. MARSH. Ever since I was intelligent enough to recognize it.

Mr. HALL. The crisis has not changed your mind any?

Mr. MARSH. The crisis has emphasized the accuracy of the position I have always taken.

Mr. HALL. That has been your policy right along?

Mr. MARSH. As to basic industry.

Mr. PLOESER. For how many years, Mr. Marsh?

The CHAIRMAN. I will certify to a number of years myself.

Mr. MARSH. I will say 40. Since I have reached years of maturity.

The CHAIRMAN. Mr. Marsh, we have kept the members here longer than we promised to keep them this morning. Will you file that statement for the record?

Mr. MARSH. I will be glad to.

(The statement referred to is as follows:)

**STATEMENT TO HOUSE COMMITTEE ON SMALL BUSINESS, BY BENJAMIN C. MARSH,
EXECUTIVE SECRETARY, THE PEOPLE'S LOBBY, INC.**

We are beginning to realize that modern war requires the complete organization of the productive and distributive agencies of any economy, as well as of the human power, which includes women as well as men.

This is called totalitarianism, but such organization is implicit in current wars.

Our failure to realize this at least a year ago has already cost us dearly in human life, and we have not yet paid the full price.

Whether the facilities for production of war requirements are sufficient cannot be determined till those facilities are fully utilized, whatever the wishes of great corporations dominating nearly every line of business.

The necessary complete pooling cannot be achieved under private enterprise, for a leopard doesn't change his spots—even in wartime.

Small business in distribution and production hasn't a chance to survive the war, under private enterprise, or to get through the post-war scramble for domestic and foreign markets, under private initiative.

The declaration of war is only a prelude to the waging of modern war, which involves approximate equality of sacrifice by all citizens.

War is the world's greatest leveler, but intelligence demands that it not be the exterminator of efficient small business, for monopoly and great size is not any guarantee of either efficiency or patriotism spelled properly.

The scarcity economy which has broken down repeatedly here in peacetime must go out of the window for the duration, to give way to that planned economy to meet the Nation's present needs and its accruing needs to be met after the war.

Efficient smallness can be utilized in such an economy, but is doomed under the wastefulness of scramble, which we have dignified by the name competition, while fostering special privileges which make competition an expensive but very dead letter.

The CHAIRMAN. The committee stands adjourned.

(Whereupon, at 11:40 a. m., the committee adjourned.)

SMALL BUSINESS IN THE UNITED STATES

MONDAY, FEBRUARY 16, 1942

**SELECT COMMITTEE TO CONDUCT A STUDY AND
INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM IN ITS
RELATION TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.**

The select committee met, pursuant to adjournment, at 10:30 a. m., in the caucus room, Old House of Representatives Office Building, Hon. Wright Patman (Texas), chairman, presiding.

Present: Representatives Patman (Texas), chairman, Edward A. Kelly (Illinois), and Leonard W. Hall (New York).
The CHAIRMAN. Let us come to order, gentlemen.

**STATEMENT OF OTIS H. JOHNSON, PRESIDENT, THE UNITED
TYPOTHETAE OF AMERICA**

The CHAIRMAN. Mr. Johnson, give your name, position, and address to the reporter, please.

Mr. JOHNSON. Otis H. Johnson, Washington, D. C., president of the United Typothetae of America, which is a national association of the printing industry.

The CHAIRMAN. Included in your group are what types of printers? Does that include the shop and the country newspaper, and does that include the daily?

Mr. JOHNSON. No, sir. This includes primarily the small, general commercial printer.

The CHAIRMAN. But does not include the publications?

Mr. JOHNSON. No, sir.

The CHAIRMAN. Do they have an association here?

Mr. JOHNSON. They have an association. I don't know just where its headquarters are located.

The CHAIRMAN. What is the name of it?

Mr. JOHNSON. I believe it is called the Printing and Publishing Industries. I am not familiar with the proper name.

The CHAIRMAN. How long have you held the position as president of the association?

Mr. JOHNSON. I was elected in October 1941.

The CHAIRMAN. Do you stay in Washington most of the time?

Mr. JOHNSON. My place of business happens to be in Washington.

The CHAIRMAN. At this time, Mr. Johnson, we are just starting on an investigation to determine whether or not small businesses over the country can be helped by farming out some of this Government printing.

We realize that there are certain types of printing that should not be farmed out. Committee reports and committee proceedings, the daily Congressional Record, and things of that type and character must necessarily be done in the Government Printing Office, but we have reference particularly to something—the scrap campaign. They are having printed matter produced here and sent out to local communities, matter that is good only for that local community, that particular community.

It occurs to me, and I think other members of the committee feel the same way, that where possible we should give the local printers the benefit of this work and help them stay in business while the war is on, because we are going to need them certainly when the war is over, so if you will give us a little light on that particular part of our study and investigation it will be very much appreciated.

Mr. JOHNSON. Mr. Chairman and members of the committee, with your permission, I will read what I have to say. My remarks are directed particularly to the subject which you have suggested as under consideration here this morning.

Before I start to read, however, I would like to say this: That I represent the general commercial printers throughout the United States, primarily small, and, of course, some large general printers, and it is our hope that this committee will direct its thought and energy to the proposition of finding things for our industry to do in the way of winning the war, as against finding ways of preserving it.

In other words, our members are vitally interested in finding something they can do to contribute toward the successful culmination of the war.

The CHAIRMAN. How many members do you have, Mr. Johnson?

Mr. JOHNSON. Our present membership is somewhere in the neighborhood of 1,000.

The CHAIRMAN. In every State?

Mr. JOHNSON. In every State, and nine foreign members, I believe, are represented.

Our Nation's expanding war effort is day by day creating unemployment, idle machines, and idle factories in the printing business—and printing with its related service plants, as you gentlemen may know, is the fifth largest industry in the Nation.

Although the printing industry is one of this Nation's largest industries, it is made up of relatively small industrial units. There are more than 20,000 small businessmen in this industry. It is predominantly an owner-operated industry.

The capital invested in the printing industry has come, in the main, from personal savings and conserved earning of workmen who wanted to have a business of their own. Our industry is a great living example of the freedom and the opportunity which American democracy has offered to every man.

While the printing industry can boast of few, if any, industrial giants, its establishments employ in the manufacturing operations alone more than 225,000 skilled and technically trained men and women. Counting the families of these workers, there are over 1,000,000 people who depend upon this great industry for the necessities and comforts of life.

While our industry is suffering now and, as the war progresses, will probably suffer still more from a drying up of demand for print-

ing, I am not here to complain, nor to criticize, nor to plead for special privileges, nor to ask for Government paternalism. We will bear our misfortunes of war nobly, as should every true American.

I do come, however, to ask that all reasonable, economical, effective, and lawful means be taken to preserve the jobs of the workmen and the capital savings of our owner-operators which, together, make printing one of the greatest small manufacturing industries in the world.

Our Government is the largest consumer of printing in the United States and not only operates the two largest printing plants in the whole world, which, of course, are the Government Printing Office and the Bureau of Engraving and Printing, but, in addition, various departments and agencies of our Government own and operate at least 100 other printing plants of one kind or another.

The CHAIRMAN. Just a minute. You say we have two huge printing plants here. Where is the other one? I know where the large one is—I presume the largest—on North Capitol Street.

Mr. JOHNSON. And the Bureau of Engraving and Printing.

The CHAIRMAN. Where are the hundred you speak of; in large cities?

Mr. JOHNSON. Some are located in the various bureaus in Washington and some in various Army camps—36, as a matter of fact, as operated in the various Army camps throughout the country.

As recently as this morning, in checking through the War Production Board, we find an appropriation has been asked for \$180,000 for printing equipment for Fort Knox; \$300,000 has been asked for Wright Field; and also another appropriation of \$344,000 has been requested for the Chinese Government which, I understand, is for the purpose of printing Chinese money.

The CHAIRMAN. Let me ask another question right there. It occurs to me that when we need all the available machines and all the skill that we can get, it is not a very good thing for the Government to have more printing machines built when you have plenty of printing machines in the locality where they expect to place them.

Mr. JOHNSON. I should say practically from 90 to 100 percent of the productive capacity of printing-press manufacturers is now being utilized for the production of direct war materials of one kind or another, which would mean if any additional machinery were to be manufactured for the purposes suggested, those companies would have to go off the direct production of war materials, such as gun mountings and what not.

The CHAIRMAN. Are you going before the committees that handle these appropriation bills and protest these appropriations?

Mr. JOHNSON. We have already gathered certain statistical information for the War Department which has in the main assisted them in stopping the forward movement of at least two of these appropriations.

The CHAIRMAN. I suggest your getting up an amendment for consideration of the committee and any other member who desires to offer it if he wants to offer it, that these plants shall not be built, if, after investigation, it is determined that there are ample printing facilities available which can be used at reasonable cost.

Mr. JOHNSON. Mr. Chairman, we found this morning that of these 36 printing plants in the various Army camps referred to in our manuscript—these are War Department figures—30 percent of the

output should have gone to private plants because it was private work for officers and their families and what not.

Mr. KELLY. There is no War Department work involved in it at all?

Mr. JOHNSON. Not in the 30 percent figure. In other words, 30 percent of the production was on that type of work.

The CHAIRMAN. You take in Paris, Tex., they are going to establish an Army camp there in Lamar County, a good, rich county, and I know they have plenty of printing facilities in that county. It would be a disappointing thing if I thought the Government also intended to place a printing establishment there. I don't think it should be done and I hope things like that are watched.

Mr. JOHNSON. They certainly need to be watched because that is definitely the trend that is developing and it would be not only from the printing industry's standpoint a rather severe blow, but I think it would be a terrific blow in our effort of armament to protect ourselves against our enemies, because this would take plants and companies who are now manufacturing war equipment off the manufacture of that war equipment.

The CHAIRMAN. And not only that, but there is a shortage of manpower in this country and it is going to be increasingly greater.

You take the printers in this particular county. It would not be helpful in our war effort to have them remain idle, you might say, and take men who have been inducted into the military service, strong, able-bodied men who want to do their duty in the war, and have them doing what these other fellows could be doing. It doesn't seem to me a sensible thing to do.

Mr. JOHNSON. That is right.

As a further evidence at this time, we received in the office this morning under date of February 14, 1942, from the Graphic Arts Organization, of Kansas City, Mo., of which Mr. Oliver Worthington is secretary-manager, a letter addressed to Mr. Rein which says—I will read one paragraph:

I am advised this morning that at Omaha, Nebr., the bomber plant has ordered an offset press, and the Omaha printers, through Mr. Ed Logue, of the Kansas City Smelting Co., has been asked to interest Kansas City employers in ascertaining the probability of the same thing occurring in the bomber plant here or in other munitions factories.

One offset press has apparently been ordered for the bomber plant in Omaha.

Before proceeding further, allow me, please, to make our position perfectly clear. Our industry accepts the fact that our Government, as a matter of convenience, and for confidential and protective reasons, has need for owning and operating certain printing facilities.

The CHAIRMAN. You say, "for protective reasons," with which I thoroughly agree, but at the same time the printing that needs the most care and most protection, and should be safeguarded the most, is not even printed at the Government Printing Office. That is the decisions and opinions of the United States Supreme Court. They are printed by a private printer, are they not?

Mr. JOHNSON. That is true.

The CHAIRMAN. Go right ahead.

Mr. JOHNSON. We know that for the prompt production of the Congressional Record, committee records, and for the production of im-

portant confidential matter, and money and securities there is ample justification for our Government's maintaining the United States Printing Office and the United States Bureau of Engraving, both of which institutions are, in my opinion, efficiently managed. I have the utmost respect for the managerial abilities and efficient administration evidenced by our Public Printer, Augustus A. Giegengack, and the Director of the Bureau of Engraving, Alvin Hall. These men are exercising their responsibilities well and in accordance with the statutes governing these departments of our Government.

The CHAIRMAN. I am glad to join you in that expression. I feel the same way about it.

Mr. JOHNSON. I have a high regard for the ability of both of these gentlemen.

But I do submit that in these strenuous times, when a smaller industry, manufacturing industry such as printing, is struggling to survive, the policy of our Government and the policy of all of its agencies should be to endeavor to place as much business as possible with the idle, or partially idle, printing plants in our Nation in order that these small proprietorships may have a much better chance to survive.

Mr. KELLY. Mr. Johnson, along with that statement about idle printing plants, why are they idle?

Mr. JOHNSON. At the moment they are idle because of the diversion of their normal consumers or customers to a different type of work than they have been heretofore performing.

Specifically, when General Motors switched from the manufacture of automobiles and their various other products, there were some four to six printing plants in Detroit that immediately closed their doors because along with the stoppage of the manufacture of the automobiles also came the lack of necessity for sales and promotional literature which these large companies bought very generously for their various dealers throughout the United States and their sales agents. It has closed several fair-sized printing plants in Detroit.

A few weeks ago, in speaking with a gentleman from Rochester who likewise was a direct-mail printer and produced printing for 25 companies in that area, he said that his business was already less than 50 percent of what it was in 1941. That would be as near as I could answer your question at the moment.

While much of the printing needed by our Government presumably must be produced in Government-owned printing plants, a very large part of the printing requirements of Government agencies could, with proper planning and direction, be efficiently and possibly more effectively produced in printing plants located in every one of the 48 States of this Nation.

I appeal for our Government's policy to be one of endeavoring to place as much of its printing requirements with our industry as practical, instead of placing as little as possible.

Again, gentlemen, let me make it clear, we do not wish to bemoan our lot, or plead for favors, but it is in order for me to set forth what is happening in this Nation's printing industry.

In order—and very properly so—to conserve critical materials, hundreds on hundreds of products manufactured in normal peacetimes by civilian industry are being restricted or prohibited.

Aluminum goods, tires, refrigerators, and other household appliances are some that readily come to mind.

When the manufacture of refrigerators is limited or prohibited, the catalogs, descriptive literature, the price lists, envelopes, order blanks, salesmen's manuals, and sales reports, invoices, stationery, and all of the manifold kinds of printing which are used in the manufacturing and distributing of refrigerators is greatly reduced or entirely dispensed with; likewise the demand for printing dries up when the manufacture of other kinds of consumer goods or industrial goods is limited or curtailed.

I might say, by the way, that Sears, Roebuck's catalog, which would possibly print 10,000,000 16-page 4-color inserts for the sale of tires or perhaps refrigerators or some of their many products, will undoubtedly not now print these. In other words, there would be no reason for including those items in their catalog when they have nothing to sell.

That in itself, just in the mail-order catalogs alone, will create a tremendous drop in the volume of printing produced.

The Government's elimination of installment selling, the wisdom of which we in no way question; has, we estimate, reduced printing consumption by at least \$10,000,000.

Consider, gentlemen, this: In our industry every \$5,000 of printing volume which is eliminated, eliminates at least 1 year's employment for one workman and brings to an idle, unproductive state \$3,000 of capital invested in printing equipment. This is within the industry alone and does not affect the suppliers of paper and other products.

You gentlemen no doubt know that nearly all of the manufacturers of printing machinery are now engaged 90 to 100 percent on war material.

Yet only recently there came to our attention the fact that certain branches of our Government were endeavoring to add new printing plants or enlarge present printing facilities by purchasing new equipment.

One such instance, we are informed, was the Army, which sought to enlarge its printing plants in one or more corps areas. In order to secure this additional printing equipment it would have required priority and doubtless would have diverted much critical material as well as manpower to the making of printing machines while there are idle men and idle machines in our industry capable of producing from ten to a hundred times more printing than the Army will ever have to buy.

Moved by this information, our national trade association, the United Typothetae of America, this month of February, made a spot survey of 870 printing plants, or approximately 7 percent of the commercial printing plants included in the Bureau of Census figures. This spot check includes a representative group of small, medium, and large plants located in every State in the Union, and in nearly every large city.

This survey indicates that at this very time, in the printing industry there are available unused production facilities and manpower capable of producing each week \$23,000,000 of printing volume, excluding materials. Twenty-three million dollars per week, gentlemen, is the equivalent of a billion, two hundred millions of dollars a year.

Stated another way, the printing industry of our country is only producing one-half of its capacity on a one-shift basis. This unused production capacity is available in every State, in every city and town in the country.

Yet some agencies of our Government are considering or have been thoughtlessly endeavoring to sidetrack essential war-material production in order to obtain new or additional printing facilities.

We are informed, however, that through the alertness of certain industry branches of the War Production Board, these intended purchases, or some of them, have been held up, temporarily at least.

We earnestly hope that your committee can prevent our Government from purchasing unnecessary additional printing equipment while our industry is hungrily seeking volume with which to maintain employment, meet its pay rolls, and pay a part of this Nation's tax bill.

Much of the printing required by the many Government agencies could, in our opinion, be more effectively planned for more efficient production on equipment available in our industry.

As an example, we are informed that the Army has in its appropriation the sum of \$100,000 to build a special printing press to print 73- by 73-inch targets. Yet, if these targets were reduced 1 inch each way, they could be produced on some 6 to 10 printing presses now standing idle, or partially idle in commercial plants in this country.

Mr. KELLY. Have you any idea what the savings would be in that?

Mr. JOHNSON. It would be impossible to tell without further statistics except the saving of \$100,000 in the manufacture of the press to begin with.

The CHAIRMAN. If those targets are made like they were in the First World War, they have several inches of space on each side and the top and bottom, that would not be used. I wonder if they are still made that way.

Mr. HALL. Is this the silhouette target or the bull's-eye?

The CHAIRMAN. Have you talked to them to see if the extra inch is necessary?

Mr. JOHNSON. I understand our office has communicated with the office of the War Department that has the drawing up of the specifications, and I am told that the rules provide that a marksman hitting the target at all is allowed one point, in which event, if they reduced it 1 inch all the way around it would lessen the surface on which he would have a chance to make his one point.

That, as I say, has been indicated as the reason why it is inadvisable to reduce this target 1 inch all the way around. There would be a saving, of course, in paper because I presume they use great quantities of those.

The CHAIRMAN. Have they actually made those presses as yet?

Mr. JOHNSON. I understand the appropriation has been asked for.

Mr. KELLY. It has been asked for, but it has not been considered.

The CHAIRMAN. Will you appear before the committee on that?

Mr. JOHNSON. I think so.

Mr. HALL. Where have they been printing these 73-inch targets?

Mr. JOHNSON. I think they already have one press.

Mr. HALL. But the present press can't turn out sufficient quantities?

Mr. JOHNSON. That is my information.

Much of the informational material issued by Government agencies for the purpose of organizing and preparing civilians for defense and for stimulating conservation and other war efforts could be made to have more meaning, more appeal, and, hence, be more effective if written, designed, and produced by local talent in the locality or region in which such material is used.

The CHAIRMAN. There would be more of the home-town interest, I would presume.

Mr. JOHNSON. It seems to me, Mr. Chairman, that if the local printer in his particular small town or community had a part in the production of whatever printing was necessary for his local civilian defense, that he could be enlisted to carry a great burden and become much more enthusiastic toward the proper functioning of these various civilian activities.

He would become part of it rather than on the outside, looking in.

The CHAIRMAN. I would think that would be true, especially in the scrap campaigns being put on all over the country now and the Office of Civilian Defense.

Mr. JOHNSON. That is right.

A citizen can best understand his part of this Nation's war effort when it is explained in terms of and related to his State, his county, his city, his factory, his job, and his home.

Educational and informative material which tells us what we should know in such terms is better understood, more motivating, and hence, more effective.

We are aware of the huge task which this war places on the shoulders of our Government and its agencies, as well as the sacrifices it requires of all of us.

In appearing before you gentlemen, I wish very definitely to avoid criticizing any individual or any agency or division of the Government, and I come not to ask for favor or subsidy. On behalf of our industry, I ask that every possible and practicable effort be made to help our industry, an industry of relatively small manufacturers, to survive.

Printing is an industry which serves every other industry; the arts, the sciences, the professions, the municipal, State, and county governments. It serves the railroads, the communication systems, the public-service institutions, the hospitals, the schools, the churches, as well as playing an important part in the production of munitions in the matter of forms necessary throughout the plants of the country to properly schedule and systematize work.

Printing and the printed word is to our Nation and our commercial and industrial life like the blood stream is to the human body. It is an essential industry.

The consideration and the concern which you gentlemen are giving to our industry's difficulties will, I assure you, be appreciated by the 20,000 or more proprietors and the millions of our citizens who look to printing for their existence.

Again, I should like to ask that our problem be considered in the light of how our industry can be converted or diverted to the production of necessary war implements.

We don't want to be saved from the standpoint of saving. We want to serve.

If there are ways and means that can be found in which we can convert our equipment can be used for the production of other items than printing which will advance the time when we may expect victory, our industry is really looking for that kind of an answer to its problem.

The CHAIRMAN. I think you have assumed a very fine and patriotic spirit, Mr. Johnson, as the leader of your organization, and the information you have given us is very helpful and is much appreciated.

Are there any questions.

Mr. HALL. No.

Mr. KELLY. No.

The CHAIRMAN. Thank you very much, sir.

I have two letters which I wish to have inserted in the record.

(The letters referred to are as follows:)

SMALLER BUSINESS ASSOCIATION OF NEW ENGLAND, INC.,
Boston, Mass., February 5, 1942.

HON. WRIGHT PATMAN,
Chairman, House Small Business Committee,
Congressional Office Building, Washington, D. O.

DEAR CONGRESSMAN PATMAN: I think that your committee might well conduct an investigation of the sugar situation. With the background of several conferences with the Office of Production Management Sugar Division, when they were writing the new order, we feel that the small man has been left out.

Thousands of small bakers, confectioners, etc., buying from the local retail store, have no protection under the order, as amended January 24, despite the fact that the plight of such businessmen was pointed out again and again.

These men will have to shut up shop because they have not been able to get sugar to run their shops. They are good Americans, have given sons to the Army and Navy, yet they just cannot understand this sugar order.

Over the radio comes statements by Fulton Lewis, Jr., from Washington, and that well-informed announcer says that there is enough surplus corn and grain to make the alcohol needed by the Army, and that the 1,300,000 tons of sugar which we were told was required for this purpose does not need to be taken.

It is time that small business and the public were given all the facts about sugar. There has been so much conflicting information that I feel that your committee would be rendering a real service by conducting a public hearing

Very sincerely,

RICHARD C. COOKE, *President.*

THE RED DOT OIL Co.,
Denver, Colo., February 3, 1942.

Congressman WRIGHT PATMAN,
House of Representatives, Washington, D. O.

DEAR CONGRESSMAN PATMAN: A reliable authority has informed us that last week the United States Army announced its intention to establish 10 field shops for recapping its own tires.

Previous to this time, the Army has asked for bids from recappers who are already established in business. These tire dealers have been making plans to buy additional equipment and train the necessary skilled labor for this contract. We feel that this is a part of the defense program which can be carried on without delay through recapping shops already established. This contract will keep hundreds of shops open through this time of dire emergency in the tire business. These shops will be forced to close if the Government goes into the recapping business itself.

We appeal to you to fight this move by the Army to open its own shop and to support our effort to stay in business, at the same time use equipment ready now to do this important work.

Very truly yours,

DICK McCUSKER.

The CHAIRMAN. The committee will now go into executive session.
(Whereupon, at 11:20 a. m., the committee went into executive session.)

(Upon instructions of the chairman, the following resolution adopted by the committee in executive session this date, is made a part of the record and reads as follows:)

WASHINGTON, D. O., February 16, 1942.

The committee met in executive session today and adopted the following resolution:

Resolved, (1) That automobile dealers desiring to liquidate frozen stocks first attempt to liquidate such stocks by sale to other automobile dealers, and that upon satisfactory showing of inability to sell to other automobile dealers, the Government agree to purchase frozen stocks at a price to cover all actual costs of handling such frozen stocks and a reasonable profit to the date of liquidation; and

(2) That a satisfactory program of aid in the financing of frozen stocks of automobile dealers desiring to stay in business be put into immediate effect; and

(3) That the Treasury Department grant such relief as may be permissible under the present tax laws to automobile dealers whose stocks have been frozen; and

(4) That any rationing program adopted for the distribution of automobiles take into account the urgent needs of farmers and defense workers; and

(5) That a Nation-wide survey of the facilities of automobile dealers be made, with a view to granting such dealers as have proper facilities contracts for the manufacture of small items required by the war effort; and

(6) That the War Department and the Navy Department utilize in every way consistent with military necessity the facilities of automobile dealers for the purpose of storing, repairing, and rebuilding military equipment; and

(7) That an effective program for the rehabilitation of automobile salesmen, who have lost or will lose their jobs as a result of the Government's freezing order, be put into immediate effect; be it further

Resolved, That it is the desire and hope of the committee that the appropriate administrative officials of the Government will act immediately on the recommendations contained in this resolution, in order to prevent the unnecessary destruction of many thousands of small business units throughout the United States, and the chairman is directed to communicate this resolution to the following officers of the Government: the Secretary of the Treasury, the Secretary of War, the Secretary of the Navy; the Chairman of the War Production Board, the Administrator of the Office of Price Administration, the Federal Loan Administrator, and the Federal Security Administrator.

SMALL BUSINESS IN THE UNITED STATES

THURSDAY, FEBRUARY 19, 1942

SELECT COMMITTEE TO CONDUCT A STUDY AND INVESTIGATION
OF THE NATIONAL DEFENSE PROGRAM IN ITS RELATION
TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.

The select committee met, pursuant to notice, at 10:30 a. m., in the caucus room, Old House of Representatives Office Building, Hon. Wright Patman (Texas), chairman, presiding

Present: Representatives Patman (Texas), chairman; Edward A. Kelly (Illinois), William J. Fitzgerald (Connecticut), Charles A. Halleck (Indiana) and Walter C. Ploeser (Missouri).

The CHAIRMAN. The committee will come to order.

Gentlemen, we have with us this morning Mr. John Dargavel, who is executive Secretary of the National Association of Retail Druggists.

I have known Mr. Dargavel for many years and know that he is a good, true, sincere friend of small business, and independent business especially, and I feel like he will be able to make some contribution to our studies and investigation in connection with the ills of small business. Mr. Dargavel, you have a prepared statement?

Mr. DARGAVEL. Yes, sir.

The CHAIRMAN. Suppose you give us your name and official position and address for the record.

Mr. DARGAVEL. John W. Dargavel, secretary and general manager, the National Association of Retail Druggists, Chicago, Ill. I am sorry that I was late this morning. I understood the time was 10:30, and am very sorry to have detained you.

The CHAIRMAN. That is all right. We had some other matters we wanted to talk over prior to the meeting, in any event.

Mr. DARGAVEL. Shall I go ahead?

The CHAIRMAN. You have a prepared statement, you said; did you not?

Mr. DARGAVEL. I do, sir.

The CHAIRMAN. Would you like to present it before you are interrogated?

Mr. DARGAVEL. Yes, sir.

The CHAIRMAN. Go ahead.

STATEMENT OF JOHN W. DARGAVEL, EXECUTIVE SECRETARY AND GENERAL MANAGER OF THE NATIONAL ASSOCIATION OF RETAIL DRUGGISTS

Mr. DARGAVEL. I come before you primarily in behalf of the 54,000 independent druggists in the United States but indirectly I believe I can speak for 1,500,000 independent retailers in all fields of dis-

tribution; for their problems are practically the same and they all face the same plight.

You have heard a great deal about what is happening to the small manufacturer who while he cannot obtain raw materials for products for civilian consumption, finds it almost impossible to get war contracts, which have been going almost entirely to the big manufacturers.

The plight of the small manufacturer is serious, but that of the small distributor who serves the small manufacturer's employees is no less so. When the little factory closes its doors, the retailer who made his living by supplying its workmen suffers also. The buying power of his customers is cut off; and in many instances, they are forced to move elsewhere for employment in which case the little merchant is left permanently stranded. But I am not disposed to base my plea on what is happening in the factory towns. The impact of the war on small retailing is broader than that. It reaches practically every little store in the land; and it affects the small stores so much more than the big ones—the chains, the catalog houses and the larger department stores—that a decided discrimination against the little fellow, and in favor of the big fellow, is created.

Let me cite a significant fact to illustrate what I mean.

Recently the two great mail-order houses reported on their current inventories and 1941 sales. Not only did their sales make all-time records, showing increases of around 30 percent for the year, but these houses also reported starting the new year with unprecedented inventories. Their inventories were away ahead of anything previously experienced. What was true of the mail-order houses I believe you would find equally true of the chains and the larger department stores, if you were to investigate. I suggest that you make an inquiry in this direction.

On the other hand, the small retailer began this year's business without any substantial inventory increases, and in many cases with incomplete stocks. As the war continues and scarcities increase in the market empty shelves will, I am sure, become more and more common in the small stores. The inventories of the Nation are piling up in its big stores, and the small stores are being emptied because they find it difficult or impossible to replace their stocks.

This trend constitutes the most serious threat that ever confronted independent business in this country. For 20 years retail business has been passing from the small merchant to the chains and other mass distributors. This shift has been going on at a faster rate than ever since the war emergency began, and I predict that it will be accelerated in the future unless you do something about it; and that if the war should last for 5 years, as seems probable now, its end will see the virtual extinction of small business.

The druggist will probably fare better than other retailers because he has a professional department to keep his store going; although it must be admitted that but few druggists could continue in business long without the profits earned in the front of the store.

Now, what are the conditions which have caused this recent shift from the independent store to the chain store and the mail-order house, which did not exist to the same degree before the war emergency came

upon us? What new situation is there which is leading to the extinction of the small retailer?

1. The scarcity of goods. No patriotic citizen can quarrel with the idea that the Government should have preference over the general consumer when there is not enough raw material, labor, machinery, and power to provide for both war and civilian use. A good case can also be made out for curtailment of the supply of civilian goods as a means of channeling spendable funds into investment in Government bonds, and thereby serving the double purpose of financing the war and preventing inflation.

I am not quarreling with any of these objectives. I am merely pointing out that the Government's policy has made it harder for merchants to get goods, and that this difficulty has resulted in creating a seller's instead of a buyer's market.

2. In a market where goods are scarce, the big distributor has a great advantage over his small and weak competitors. He has capital to build huge inventories in anticipation of future scarcities. Most of his competitors, on the other hand, have barely enough capital to own their normal inventories without debt and scarcely ever enough to engage in hoarding.

The big distributor has access to advance information as to where shortages are likely to occur, and as to what Government restrictions are likely to be imposed. These means his small competitors do not have. There are too many chain-store men in the Government service and they are filling practically every department dealing with the war situation.

The big distributor has far-flung buying organizations and is therefore able not only to know where scarce goods are obtainable, but to tie up the entire production of factories, thereby foreclosing the opportunities of his small competitors to buy. It is not necessary to impute any willful purpose to take this advantage; in a panic market it may be only commendable business prudence to take it. But the effect on the business of the small distributor is no less disastrous.

Naturally, in a market where a few great distributors buy up those stocks which are most readily obtainable, the small retailer must seek his supply from the sources which remain, if he can determine where they are, and in many instances to pay prices which leave him in an uncompetitive position.

3. Already, for some kinds of merchandise, the public has gotten the impression that it must go to a larger store with piled-up inventories in order to obtain goods; and therefore has shown a tendency to pass up the small store, even when it has merchandise to supply the want. This may explain in large part the unusual increases in volume the chains, mail-order houses and department stores have had during the last few months, as compared with the more modest increases of the small stores—which may reflect the increase in the general price level rather than an increased flow of merchandise.

The three factors I have mentioned have already operated to the disadvantage of small business, and to the advantage of big business. I don't want to pose as a prophet, but I leave to your own judgment and imagination what may happen to the small merchant if the war should continue as long as it now seems that it may.

I also ask you to consider whether a victory at arms would have secured all that we are fighting and sacrificing for, if at the end of

the war we should have a nation in which all distribution, as well as all manufacture, was in the hands of a few great corporations.

In the past, the Congress has passed laws that have been of great benefit to the small businessman, and I am frank to say that these measures have been largely responsible for the ability of small business to survive during the years of depression. We hope you will be equally prompt in recognizing the special conditions that are arising out of the war.

You passed the Robinson-Patman law, to equalize discounts that may be earned by large and small buyers in the purchase of merchandise. The law did not seek to remove the differentials, but only to remove the wide discrepancies which formerly existed. The large buyer still has an advantage, but under the law that advantage is limited to the difference in the cost of selling in larger and smaller quantities.

The principle of the Robinson-Patman law, challenged at first by the large buyers, was so fair that it is now quite generally accepted. That does not mean that it is universally followed. Undoubtedly there are many violations. The law needs to be better enforced. We are not finding fault with the Federal Trade Commission, for we recognize that it is no easy matter to uncover all violations; it involves a tremendous job of policing and funds are perhaps not at hand to employ enough policemen. We hope that Congress will be as generous as possible in appropriating funds for this work, and also that the Commission will consider the enforcement of the Robinson-Patman Act one of its most important responsibilities.

The Robinson-Patman Act is not, however, a cure-all for the ills of the small retailer. It was not intended to be. By its terms its provisions are limited. It is directed against discriminations and hence, has no bearing on transactions in which no discrimination can be shown to exist. Thus, if a distributor is large enough to take the entire output of a factory, that factory can quote any price, even one so low as to enable that distributor to undersell any and all competitors who obtain supplies from other sources. This situation can hardly be remedied by law; and perhaps it does not need to be, for it may be assumed that a manufacturer who has but one customer will make that customer pay enough for his merchandise to cover all the costs of manufacture. Otherwise, he would be soon bankrupted. He is not in the same situation as the manufacturer who sells to small retailers and one or two big ones, and charges all his overhead to his general run of customers, thereby making them pay a part of the cost of the goods sold to his favored customers. I cite the instance of a certain tire manufacturer and a certain mail-order house, in which the Federal Trade Commission had to invoke the Robinson-Patman law.

But, while it is not easy to reach by law the manufacturer who supplies only one distributor, it is possible to reach by legislation the distributor who does his own manufacturing, and especially if he supplies other stores beside his own.

The courts frowned upon this practice in the *Packers Consent Decree cases*; and it is most seriously suggested that you consider, as a means to preserve independent business from extinction, the enactment of a law prohibiting manufacturers who sell to the general

trade from engaging in retailing. Likewise, wholesalers should be prohibited from having retail stores of their own. Such a law would be a valuable adjunct to the Robinson-Patman Act.

So would an amendment to the antitrust laws removing all doubt as to the legality of collective buying by retailers. It is inconceivable that the right of collective buying should be dependent on the discretion or caprice of any administrative official of the Government. Men should know what their rights are—they should not have to guess, and run the risk of prosecution. Today they cannot know to what extent collective action is permissible, for the best lawyer in the country cannot advise them with any assurance that he is not in error.

The independent businessmen of this country are in sympathy with the antitrust laws and with their enforcement, for those laws were passed to protect them, as well as the consumer, against monopoly.

They stand ready to back the public authorities in enforcing the antitrust laws. The independent businessmen of this country believe in fair and free competition.

But, they are dismayed when laws intended to curb monopoly are used instead to deprive them of the very means to protect themselves against monopoly. They believe there should be no restraint upon collective action in buying; that they should be permitted to enjoy some of the buying advantages enjoyed without restriction by their monopolistic competitors.

The buyer for a chain of 500 stores, or 5,000, or 10,000, can dictate the prices and terms at which he will purchase goods from any manufacturer. That buyer can bring to bear any amount of pressure. He can, after making a manufacturer dependent on one chain of stores for distribution of his products, ruin that manufacturer by withdrawing the account. All this he can do, and he does not violate any law. He is within his legal rights.

But let two or more independent merchants form a buying association for the purpose of bargaining collectively in buying goods for their respective stores, and they are in serious jeopardy, under the antitrust laws as they have been interpreted.

For an offer to buy at prices and on terms that are deemed reasonable implies a refusal to buy if the prices and terms are not acceptable, and a joint refusal to buy is deemed a boycott.

There is the very core of the chain-store problem. The chain stores have become big and powerful, they have been able to drive thousands of individual retailers out of business, because they have been protected by law in doing what their independent competitors have been prohibited from doing. It is not paternalistic legislation the independents need, so much as exemption from artificial disabilities created by law; and it is ironic that those disabilities exist by reason of laws designed at the outset to protect independent business against monopoly.

I don't assume to be a bill-drafter, but I submit for your consideration a measure which might read something like this:

It shall not be deemed to be a violation of any Federal law for two or more retailers to bargain collectively with a manufacturer, producer or other supplier, in purchasing goods, wares, or merchandise for re-sale in their respective stores and in effectuating such purchases to negotiate jointly with respect to prices, discounts and terms of sale.

I am not saying that such a law would put the little fellow on a complete equality with the big distributors, but only that it would tend to remove one of the most serious of the inequalities.

If such an organization of small retailers were set up in any community, it could engage the services of a buyer acquainted with the market and having knowledge of where goods might be procured under the present situation; such a buyer could negotiate purchases in quantities large enough to command the interest of a seller, and to induce that seller not to give chain-store buyers exclusive consideration; contracting for goods in larger quantities, such a buyer could obtain all the discounts permitted by the Robinson-Patman law. He might also get access to information as to instances in which that law has been violated and help the public authorities to enforce it by relaying that information.

With collective action permitted to this extent, independent merchants would still have a handicap; but the handicap would not be so great that it could not be overcome by the greater economy of operation inherent in business conducted personally by the owner, assisted maybe by the members of his family. I am convinced that the enactment of such a law, and the failure to enact it spells the difference between survival and extinction for hundreds of thousands of small retailers in this country during the present war.

The passage of such a measure would also help the consumer. Those who patronize small stores would get the benefit of lower prices because of the price reductions their storekeeper would be able to obtain; and all consumers would benefit in that a few large distributors would not be able to obtain the monopolist's power to raise prices. Such a law would preserve competition.

Next, I want to invite your attention to the fair-trade laws and the Tydings-Miller Act. The small merchants of the country are grateful to Congress for turning a deaf ear to the clamor, started by catalog-house interests and the Nation's greatest department store, to repeal the Fair Trading Enabling Act. The consumer should be grateful, too; and I believe he is, because the fair-trade laws have done more than anything else to stop deceptive and dishonest merchandising in this country.

It is important to understand that the purpose of these laws is not to protect large profit margins. The best evidence of this is that by and large the retailers' margins on nationally advertised brands is smaller than on competitive merchandise. The independent merchant's interest in fair trade is that, as the very name implies, it deprives unethical dealers of the opportunity to use popular brands of merchandise in an unfair way. Loss leaders are not intended to help the consumer—they are used to deceive him; to make him believe that prices charged generally throughout the store are as low accordingly as those charged for the featured national brands whose prices are universally known; and by employment of that form of deception, to get business away from competitors.

That this is the purpose is not a guess. The Secretary of the Treasury a few years ago, acting under the direction of Congress, sent his buyers into the New York store of the most active enemy of the fair-trade laws, and found that that store, which sold national brands for less than they cost the average merchant was selling other merchandise for 1,000 percent profit.

If the independent merchants of America are to be put out of business, they want to be put out of business honestly. They do not want to be put out of business by methods which deceive the consumer. If we have to quit because we are less efficient than others, we'll accept the verdict. But we don't want to have to quit because the great Federal Government has sided with the trick merchandisers against the State legislatures that enacted fair-trade laws for our protection.

The fair-trade laws have sometimes been termed price-fixing laws. They are not price-fixing laws—they do not put the Government into the business of fixing prices. Under any system of business, somebody must fix prices. Under our system, individuals fix them—the sellers fix them. Those sellers may be either the manufacturers who made the goods or the retailers who distribute them.

If the retailers fix prices, each individual retailer will fix them at the point which will yield the largest net returns under conditions existing in his community—this often means that he will charge what the market will bear.

The result is that if a consumer lives in a community in which local price competition is very keen, he may get goods for less than cost; but if he lives in a community where price competition does not exist, or where it has been eliminated, he will pay more than he should pay. Such is the situation where there are no fair-trade restrictions.

The other seller who, in a free economy, might fix the prices of goods is the manufacturer. He is interested in pricing his goods at a point where they will have the largest sale throughout the country. He not only has to meet the competition of other national brands, but that of private brands as well. Inevitably it is to his interest to establish the prices at the lowest point at which they will yield the cost of producing and distributing his products. The goods must be available at the same price to every consumer, everywhere. That's fair trade, and under it the consumer not only gets a fair deal but the same deal, no matter whether he lives in a high-priced community or a cheap one.

Since the war emergency started, there has been an additional reason for the maintenance of fair trade. When a fair-trade price has once been established, has once been publicized so that almost every consumer knows what it is, it is no easy undertaking to change that price. It is expensive, it involves a great deal of effort, it creates the need for a lot of explaining. So it happens that fair-trade prices tend to remain stable, and price stability in a rising market is a protection to the consumer. So the fair-trade laws have actually helped the Federal Government in preventing price inflation, and it has been a deterrent to merchants who might otherwise wish to raise their prices.

This committee has a rare opportunity. While the rest of the Congress is so engrossed with the problems immediately related to winning the war that it has little opportunity to give thought to other things, you have been selected to consider what may be done to save an important part of the American economy. You have been selected to consider what needs to be done to preserve in America the kind of society we are fighting for. If the rest of the Congress succeeds in the effort in which it is engaged and you lose the cause in which you are directly concerned, it will be a hollow victory.

The independent retailers of this country are patriotic citizens. Since Hugh Mercer, the druggist at Petersburg, Va., closed his drug store to join his friend George Washington in fighting the Revolutionary War, small merchants have always stepped to the front for their country. Now the retail druggists of the United States are offering their stores as emergency-aid stations; they and their employees are taking Red Cross training; they are installing cabinets with first-aid supplies and turning the key over to the civilian defense authorities in order that everything might be ready if the enemy should drop bombs; they are devoting themselves to selling defense stamps and bonds. In the face of a scarcity of pharmacists, they are working longer hours willingly, in order that the Army may have the 5,000 pharmacists it needs now, or the 10,000 it may need after the armed forces have been expanded to their maximum strength.

The retailers of the United States stand ready to make all sacrifices that will help this country win this war, but they can continue to serve their country only if they are given a chance to continue. If they are crushed and swept aside they will be a burden rather than a support to the Nation's economy. They know distribution, for they have learned it the hard way. They know distribution because their experience with it, in all its details, has been personal and first-hand. Here is a resource that this country needs, more than it has needed it in times of peace. That resource must be conserved.

I am not minimizing the importance of planes and tanks and guns. War is hard, realistic business, and it can be fought successfully only by opposing to the forces of the enemy greater forces of our own. It can be won only by attack; it cannot be won by retreat. It can be won by action, not by procrastination.

But there is another thing besides planes and tanks and guns that is needed to win war, and that is morale. You can't win this war with a spiritless people. The masses of the people must be made to feel that they have a future worth fighting for. Our forebears achieved miracles in the building of this country because each and every one of them expected to own a part of it. That hope made them work hard; it made them endure, and it made them fight hard. Don't let anything happen to destroy that hope.

Under normal conditions and under existing law the manufacturer and the wholesaler have the right to select their own customers, and it is fair and equitable that this be so.

But, under scarcity conditions leading to priorities and rationing, this system is highly dangerous as productive of monopoly unless some protection is given to the independent retailer in the prevention of discriminatory practices in the distribution of goods. Manufacturers and wholesalers must be prevented from funnelling such goods as are available into their own retail outlets or into the hands of financially powerful mass distributors such as the great chains and the huge mail-order corporations, to the detriment of helpless independent retailers.

The CHAIRMAN. Mr. Dargavel, how many members are there in your association?

Mr. DARGAVEL. Approximately 28,000.

The CHAIRMAN. Where are they located?

Mr. DARGAVEL. In every State of the Union.

The CHAIRMAN. Mr. Kelly, do you desire to ask any questions?

Mr. KELLY. Mr. Dargavel, in the forepart of your statement you mentioned something about these improper business transactions, and I think you mentioned something about the wholesalers not being allowed to be retailers.

Of course, those conditions prevailed many years ago, they did not just start now, and I am wondering whether or not you made any inroads with regard to that situation through the State legislatures?

Mr. DARGAVEL. You mean, as it existed in the past?

Mr. KELLY. That is correct, because you know that they have been before the various State legislatures, and I know the State of Illinois in particular, and they have not been able to get anywhere.

Mr. DARGAVEL. Yes; that is right.

Mr. KELLY. And I sympathize, of course, myself, with the plight of the smaller businessman, and the retailer, that he has terrible competition today, where he had to compete with the man that is in the wholesale business and then that man in the wholesale business might go out and open up a retail store in competition with the very people he is selling his merchandise to; but I am just wondering whether or not Congress would have any authority.

I remember another time here when we started many things like that and incurred the wrath of all the retailers and wholesalers, everybody in the country, claiming that we were going too far and trying to encroach too much on the sovereignty of the State and the individual rights of the individuals.

Mr. DARGAVEL. Did you say that you got a reaction from the retailers?

Mr. KELLY. Yes; in many cases.

Mr. DARGAVEL. I do not understand that, especially in our business, where wholesalers are beginning to own drug stores and have outlets of their own, and it has hurt the independent stores, and we feel that they should not be permitted to operate both wholesale and retail businesses because they have a great advantage. Our business—in the business in which we are engaged, the discount situation is quite large, and the man that buys direct has an advantage of 15 to 20 to 30 percent over the fellow that has to buy from the wholesale house, and that is quite a definite advantage, as you can appreciate.

Mr. KELLY. You take the drug stores today, unless they are in a general-store business, they just cannot survive.

Mr. DARGAVEL. That is right; as I pointed out in my statement, it was the front of the store that supported the business, and if it were not for that front there would not be any store.

Mr. KELLY. That is all I have.

The CHAIRMAN. Do any of you gentlemen have any questions you would like to ask? Mr. Fitzgerald?

Mr. FITZGERALD. I have no questions.

The CHAIRMAN. Mr. Halleck?

Mr. HALLECK. No questions.

The CHAIRMAN. One thing mentioned, too, is about the plight of the Army, and if it is increased to 3,600,000, as is contemplated, how many of the pharmacists will that necessarily take?

Mr. DARGAVEL. One to every 700. That will make 5,000, and if the Army is increased in the way it is contemplated, it will be 10,000, and that will be approximately 10 percent of all of the pharmacists

in the country who will be in the Army and there will then be a great scarcity of help in the stores.

The CHAIRMAN. Then, you will have a very major problem there.

Mr. DARGAVEL. One that is already arising now.

The CHAIRMAN. Thank you very kindly, Mr. Dargavel, for coming here, and we appreciate your statement.

Mr. DARGAVEL. Thank you, and I appreciate the opportunity.

The CHAIRMAN. I have a number of communications here, consisting of telegrams and letters, which I wish be made a part of the record at this point.

(The communications referred to are as follows:)

DE PERE, Wis., February 9, 1942.

HON. WRIGHT PATMAN,
Washington, D. C.

MY DEAR SIR: I was extremely interested in your part of the radio program a couple of weeks ago—the Forum of the Air discussion of the little businessman. The disappointing part though was that the only man who was discussed was the auto man and interest is being taken in trying to help him. There are many more industries and manufacturing plants which are being forced to the wall due to the impossibility to get raw materials. My brother and I, with Mr. Rounds, have put our life savings in the Lange Products Co. We were going along nicely when alcohol was taken away and many of our best products were shelved. Other things have been denied us which makes the going pretty bad. We make vanilla and other flavors; sell mustard, pepper, and other spices, food products, and home remedies, also veterinary products, and insecticides. Most of this is sold to farmers and in small towns and villages. Our plant is in De Pere, Wis. You spoke as though you would like to help anyone who needed it. Can you suggest what can be done for us? Some special committee to write to. There is always so much red tape though, and we do desperately need something to keep going. We put our money in this going concern just before the war crash, not knowing things would be so bad.

Thank you most sincerely for any assistance you may be able to give.

Very sincerely,

ELIZABETH K. MOORE.

JOPLIN, Mo., February 15, 1942.

HON. WRIGHT PATMAN,
House Office Building, Washington, D. C.:

An investigation of some of the large rubber companies will show they have been shipping camelback tire-treading rubber in large quantities to oil companies, retail motorcar companies, utilities operators, and no doubt other large interests which we have not located. Suggest you check at once on Wholesale Oil Company, Tulsa, Okla.; Cities Service, Kansas City, Mo.; Retail Car Dealers, Joplin, Mo. This action by large rubber factories explains why no camelback available for small tire-treading firms depending wholly for existence upon treading. These same companies that are being shipped have no treading equipment and should not be allowed camel-back. Urge your support to stop these unfair practices.

JOPLIN TIRE SERVICE.
O. E. OLIVER.

NAPA, CALIF., February 8, 1942.

CONGRESSMAN WRIGHT PATMAN,
House Office Building, Washington, D. C.:

An urgent plea from one independent tire dealer for immediate aid. Fifteen years of 18 hours a day 7 days a week to build this business. Facing bankruptcy unless help is forthcoming. Big interests are now buying more new equipment to just start into business making things even harder. Big tire companies have hundreds of pounds of rubber stored away. The small independent has none. We urgently need a more equitable distribution of rubber supplies from big hoarders to small independent dealers. Your help needed immediately.

GLAZIER TIRE SHOP.
E. B. GLAZIER.

NEW YORK CITY, February 11, 1942.

Representative PATMAN,
Chairman, House Committee on Small Business,
Washington, D. C.

DEAR SIR: I am very anxious to obtain some business for the small brush manufacturers in the United States. Both the Quartermaster and Ordnance Departments use considerable quantities of twisted wire brushes. If some of this business could be spread out to some of the small plants instead of it all being placed with the largest brush manufacturer in the country, it would help these plants maintain their present pay roll, and also eliminate considerable borrowing from banks, which it has already been necessary for my factory to do to stay in business.

Any cooperation you can give me in this matter will be greatly appreciated.
Very truly yours,

A. HAROLD MILLS.

GAS & OIL EQUIPMENT CO.,
Memphis, Tenn., February 14, 1942.

CONGRESSIONAL COMMITTEE OF SMALL BUSINESS,
Washington, D. O.

GENTLEMEN: I have been asked to take this problem up with you because it is of vital importance to me.

I am in the filling station equipment business here and have been for 25 years and am now 53 years old. The equipment I sell—80 percent of which is sold to the service-station operator, oil companies, and oil-company agents. On the 14th of January 90 percent of the items I have to sell were frozen, so naturally our sales are nil, not even enough to take care of the overhead which we have.

There is myself and two competitors in this business here. One of my competitor's stock will be, I think, liquidated in the bankrupt court within the next few days. There is not enough business here for my other competitor and myself. Last week we got together and I sold out to him for cash and then the local W. P. B. advised me as well as my competitor that this deal could not go through as our stocks were frozen and could not be transferred. Now I have a farm I could go to and my intentions are to do that and I would like to know if there isn't some way that we can make this deal.

I am particularly anxious to hear from you at once as I want to get this settled once and for all.

Yours truly,

BURGE: jh

GAS & OIL EQUIPMENT CO.
H. A. BURGE.

ADVANCE BUCKLE AND BUTTON MOULD, INC.,
New York, N. Y., January 26, 1942.

Congressman PATMAN,
Washington, D. C.

MY DEAR CONGRESSMAN: After listening to your interesting broadcast on Sunday regarding small business, I am taking this privilege and opportunity of addressing a few words to you.

We are one of those "small businesses" employing between 20 to 30 men. We have a modern machine shop, we manufacture our own stamping dies. We also have 15 power presses for metal stampings, but we do not know whom to contact nor how to go about getting defense work, which we are equipped to manufacture. Our problem fits perfectly with your Sunday broadcast. I know that you would be the proper party to advise us whom to see, and etc.

Therefore, I would appreciate if you would acknowledge receipt of this letter; also, I would be pleased to come to Washington at your request.

Thanking you for any consideration you give us. Also, I enjoyed your broadcast immensely.

Yours truly,

ADVANCE BUCKLE & BUTTON MOULD, INC.,
PETER A. KATZ.

ARDMORE, PA., January 31, 1942.

GENTLEMEN: As a sideline, I own a shipyard on the coast of Maine, in the town of Camden. It is a small business, never grossing over \$50,000 a year

through 1940. As a wooden shipyard, however, it is as good and well-equipped as they come.

Last April we got a contract from the Navy to build two 90-foot mine sweepers. We have delivered one, and the other will be delivered with a week or two. We have lost some money on the order. We have had nothing but the highest praise from the Navy. When the second boat is finished we will be down to less than 10-percent capacity, and may have to go out of business because the Navy won't give us more orders.

I don't mind small luxury or nonessential businesses having to shut up, but as an American it burns me up plenty to see shipyards closing in these times; I believe several already have, and more, like mine, will probably have to unless the Navy changes its ways.

By all means crack down on anybody who is making 250-percent profits, or 50 percent. But can you not do something to keep us in business when America needs ships so desperately?

We have been certified by the Navy to be able to build any wooden ships up to 250 feet in length. We have built two swell mine sweepers. We can turn out one sweeper every 3 weeks if given a proper order. We will do it for a guaranteed 2-percent profit if desired, with our books completely open at all times to any appointed auditors.

We'll do our bit to the utmost; can't you help us to do it?

Sincerely yours,

CARY W. BOK.

MASTER TRUCKMEN OF AMERICA, INC.,
New York, January 27, 1942.

COMMITTEE OF SMALL BUSINESS,
House Office Building, Washington, D. C.

GENTLEMEN: On Sunday, January 25, 1942, I was listening to the radio program entitled "Forum of the Air," over station WOR. The subject was with regard to the protection of small businessmen.

I am the president of an association known as the Master Truckmen of America, Inc., and most of the members are engaged in local trucking. They are considered small businessmen.

These truckmen also feel the lack of business as a result of the war, and they are now in a precarious financial plight.

The question I wish to ask is whether or not the local truckmen are taken into consideration with your Committee of Small Business.

I would appreciate all the information that you may furnish me, with respect thereof.

Very truly yours,

MASTER TRUCKMEN OF AMERICA, INC.,
FRANK E. WOLF, *President*.

WARASH VALLEY TEXTILES,
Peru, Ind., January 26, 1942.

SMALL BUSINESS SECTION,
House Office Building, Washington, D. C.

GENTLEMEN: Listening to your forum discussion last night, led by Congressman Patman and Senator Mead, I was impressed with the report by one Vermont gentleman on this forum. He said a small woolen mill being unable to conform to requirements of the defense and war needs, this Vermont mill did get business from the lend-lease group for foreign countries.

We are listed with all quartermaster depots but cannot find where they use quilted wool or feather-filled comforters or carded wool batts. Does the lend-lease group buy these articles?

Any work you can forward me, will be highly appreciated and I remain,

Yours very truly,

IRWIN C. COLE.

The CHAIRMAN: Unless the committee members have something else to offer, suppose we have an executive session?

(Whereupon, the committee went into executive session.)

SMALL BUSINESS IN THE UNITED STATES

WEDNESDAY, MARCH 4, 1942

SELECT COMMITTEE TO CONDUCT A
STUDY AND INVESTIGATION OF THE
NATIONAL DEFENSE PROGRAM IN ITS RELATION
TO SMALL BUSINESS IN THE UNITED STATES,
Detroit, Mich.

The select committee met, pursuant to adjournment, at 10 a. m., in the Bagley room, Hotel Statler, Detroit, Mich., Hon. Edward A. Kelly, chairman, presiding.

Present: Representative Edward A. Kelly of Illinois, chairman; Representative Charles A. Halleck (Indiana), and Representative Walter C. Ploeser (Missouri).

Also present: Ira Bird Kirkland, Jr., counsel for the committee.

The CHAIRMAN. The meeting will come to order.

In pursuance to House Resolution 294, the membership of the select committee present here at the present time, I wish to introduce to you gentlemen Mr. Charles Halleck, of Indiana; and Mr. Walter C. Ploeser, of Missouri; and in view of the absence of the chairman of the committee, the subcommittee, I am to take over the meeting here this morning, and my name is Edward A. Kelly, of Chicago.

We are here to determine the difficulties encountered by the small industry, the small business people of this Nation. While the day has come for industrial mobilization, many of the small manufacturers and the small business people throughout the Nation are having a great deal of difficulty in coming into the armament program. Therefore, we are trying to be as helpful as possible in finding out their difficult problems, and to see if we cannot be helpful in bringing all the small industrial people of this Nation into the armament program where they might get a portion of this business.

So today we are going to hear the difficulties that the printers or the printers association is encountering in the city of Detroit.

The first witness will be Mr. Guy Holcomb of the Small Business Section, Antitrust Division of the Department of Justice.

Mr. Holcomb.

STATEMENT OF GUY HOLCOMB, SMALL BUSINESS SECTION, ANTITRUST DIVISION OF THE DEPARTMENT OF JUSTICE

The CHAIRMAN. Mr. Holcomb, will you state your name?

Mr. HOLCOMB. Guy Holcomb.

The CHAIRMAN. You may proceed.

Mr. HOLCOMB. Mr. Chairman, and gentlemen of the committee, my name is Guy Holcomb. I am chief of the Small Business Section of the Antitrust Division of the Department of Justice.

As the members of the committee know, but some of those at the hearing may not know, the Small Business Section, in its effort to afford independent advocacy to the smaller business firms throughout the country, have received letters of complaint from numerous printing companies, some large, some small; the commercial printing firms.

In the latter part of January, I asked that a number of the Small Business Section staffs make an inquiry into the methods, the procedures, the policy of the Government Printing Office. Many of our complainant printing firms thought that they had submitted forms outlining their facilities and equipment and personnel and had received no bids whatever, or no invitations to bid. They couldn't quite understand the cause, because through trade channels they were learning or hearing that numerous contracts were being let out by the Government Printer.

Those complaints were what prompted a study made of the procedure and policy.

The CHAIRMAN. Those are general complaints throughout the Nation in the industry?

Mr. HOLCOMB. Well, I would say they are complaints, complaints and inquiries, both. They are from as far south as Tampa, Fla.; some came from Detroit, here; others from the Midwestern and Western States; some from the East; some in regions neighboring to the District of Columbia, came close to home.

This report is signed by Harold A. Henderson, special attorney of the Small Business Section, and it is not very lengthy. I think it might be well to read it, because it will not only give the committee an idea of his findings, but it might be helpful to gentlemen that will appear before us later.

(Whereupon the report was read by Mr. Holcomb.)

Pursuant to the request of Mr. Guy Holcomb, I had an interview with certain officials of the Government Printing Office and had a joint conference with Messrs. Herrell, Ritter, and Deviny. The agenda of discussion was a matter of awarding contracts to private printing firms for various departments of the Government, particularly the Army and the Navy.

EMERGENCY PRINTING ORDERS

Several months ago on account of the existing state of national emergency, the Government Printing Office found that its printing facilities were inadequate to meet the requirements which existed and it would be necessary to make awards to private concerns for Government printing.

SURVEY OF PRIVATE PRINTING PLANTS

The Government Printing Office made a survey which showed that there is in existence in the United States about 20,000 private printing shops and that about 15,000 of these shops were potential prospects with the capacity to do Government printing.

QUESTIONNAIRES

In order to get an all-over picture of these 15,000 printing shops, the Government Printing Office sent out questionnaires to these 15,000 printers, the list of which was taken from trade journals, and questionnaires were submitted to each one including the Franklin Printing Corporation, of Atlanta, Ga., for the purpose of not only finding the capacity of each shop, but the class and kind of work that it was able to do.

CLASSIFICATION OF PRINTING SHOPS

Upon receiving these questionnaires, the Government Printing Office made a classification of shops based upon capacity and the kind of work they were able to do, and as a result there were about 10 classifications, some of which classifications were subdivided.

PRACTICES AND PROCEDURE

The Government Printing Office then adopted the practice and procedure as follows, viz.: When an order would come in for printing which the Government Printing Office could not well do on account of their limited capacity, they would look through their files to find the classification for which the order would be best suited and every printing plant within said classification would be extended an invitation to submit bids upon the order. They stated it was their invariable practice to always allow the bid to the lowest bidder.

OTHER FACTS ASCERTAINED

These gentlemen informed me that they were receiving a great many inquiries, especially from the smaller printing establishments and that these inquiries amounted sometimes to as many as 30 or 40 per day, and on account of these inquiries they had prepared a set of general instructions for the benefit of bidder and contractors and also another publication in the form of questions and answers. I am attaching forms of the questionnaire, which was sent out, which is marked "Exhibit A" and a form of general instructions to bidders which is marked "Exhibit B" and a form of questions and answers which is marked "Exhibit C." They further informed me that they had been constantly called upon by different Senators and Representatives in Congress for information which they had always furnished.

They cited me an instance of where on one occasion they sent out invitations for bids to various firms in Atlanta, Ga., for a job and that none of these printing offices had responded to their invitation. They cited another instance of where invitations were sent out for an order to be delivered in the South and that many firms had submitted bids, among them Atlanta firms, but that a certain Philadelphia printing concern had submitted a bid which amounted to about one-half of the other bids, even including the item of freight, which was on an order to be delivered in the South, and under their rule of awarding to the lowest bidder, the Philadelphia firm was awarded the contract. They further stated that this was emergency was working great hardship on many smaller printers, but stated they had worked out with great care a system of making these awards and that in many instances the larger concerns would have up-to-date and modern machinery which allowed them to do the work a great deal cheaper and as a consequence in many instances they would be the low bidder and would therefore receive the contract.

HAROLD A. HENDERSON,
Special Attorney, Small Business Section.

EXHIBIT A

QUESTIONNAIRE

THE GOVERNMENT PRINTING OFFICE is now endeavoring to mobilize the printing industry for the purpose of assisting the Government in its National Defense Program. This questionnaire is being distributed by printing-trade associations to the printing establishments in their area. It should be filled out and returned to the association which sent it to you. The data contained in these questionnaires, when forwarded to the GOVERNMENT PRINTING OFFICE, will permit them to select firms in any particular area best equipped to handle the type of job needed to be produced in that area. Your cooperation in answering promptly and as accurately as possible the questions below and on the following pages will be appreciated. Additional information should be written on separate sheet and attached hereto.

TYPE AND VOLUME OF ANNUAL BUSINESS

	Percent		Percent
Commercial (stationery, forms, letterheads, general utility, etc.)	Tariff	.....
Periodical	Direct-mail advertising	.....
Yearbook	Law and financial	.....
Catalog	Book jacket	.....
Book	Other specialty	.....
		(Name kind)	

Total square feet of floor space in plant, building, or leasehold

Additional space available

What sources have you for purchasing paper stock?

Can you obtain quantity on short notice?

What stock and approximate amounts do you normally carry that would be available for Government printing?

What shipping facilities have you (by truck, railway, or boat)?

What facilities for mailing?

(Date)

(Name of firm reporting)

(Telephone)

(Street address)

(Financial rating)

(City)

(State)

Where equipment is not contained in your plant but is available in your city, furnish firm names and type of equipment.

.....

.....

.....

COMPOSING ROOM

Personnel:

Average number of journeymen now employed.. { Day shift
 { Night shift
 { Lobster shift

Maximum number of journeymen possible on each shift (based
 on existing equipment).....

Equipment: *Number* *Number*

Composing frames.....	Linotype or Intertype machines.....
Job stones.....	Monotype keyboards.....
Cylinder stones.....	Monotype casters.....
Proof presses.....	Ludlow or all-purpose machines.....

What foreign languages are you equipped to do?

PLATEMAKING

Personnel:

Average number of camera and platemaking
 journeymen now employed..... { Day shift
 { Night shift
 { Lobster shift

Maximum number of camera and platemaking journeymen possible
 on each shift (based on existing equipment).....

Equipment: *Number* *Number*

Cameras up to 36 inches.....	Vari-typers.....
Cameras over 36 inches.....	.....
Stripping department.....	.....
Dark-room equipment.....	.....
Electrotype facilities.....	.....
Stereotype facilities.....	.....
Photoengraving facilities.....	.....
Offset platemaking facilities.....	.....
Rubber platemaking facilities.....	.....
Waxograph platemaking facilities.....	.....
Wax ruling facilities.....	.....
.....
.....
.....

PRESSROOM EQUIPMENT

Personnel:

Average number of journeymen now employed... { Day shift.....
 Night shift.....
 Lobster shift.....
 Maximum number of journeymen possible on each shift (based on existing
 equipment).....

Equipment:

Platen presses:

No.	Size	Automatic
.....
.....
.....

Small automatics—up to 26":

.....
.....
.....

Large automatics—up to 46":

.....
.....
.....

Two-color automatics:

.....
.....
.....

Rotary—sheet-fed:

No.	Colors
.....
.....
.....

Color presses—3-4-5-color:

.....
.....
.....

Special letterpress equipment:

Name
.....
.....
.....

Cylinder presses—single-color:

No.	Size	Mech.-Fed
.....
.....
.....

Cylinder presses—two-color:

.....
.....
.....

Perfecting presses:

.....
.....
.....

Web presses:

No.	Size roll	No. rolls	PP Size	Sheet Size
.....
.....
.....

Offset presses:

No.	Size	No. Colors
.....
.....
.....

Special offset equipment:

Name
.....
.....
.....

Other processes:
 Equipment:
 Specializing in:

BINDERY

Personnel:

Average number of persons now employed..... { Day shift.....
 { Night shift.....
 { Lobster shift.....
 Maximum number of persons possible on each shift (based on existing equip-
 ment).....

Equipment:

	Number		Number
Power cutters, under 50-inch.....	Hand-fed stitchers, single-head.....	.....
Power cutters, over 50-inch.....	Hand-fed stitchers, multiple-head.....	.....
Three-knife trimmers.....	Chain-type stitchers, single-head.....	.....
Continuous trimmers.....	Chain-type stitchers, multiple-head.....	.....
Folders—Cleveland E or W.....	Sewing—Singer.....	.....
Folders—Cleveland O-OO.....	Sewing—Smythe.....	.....
Folders—Cleveland M-MM.....	Round-hole driller.....	.....
Folders—Cleveland B.....	Round-hole puncher.....	.....
Folders—Cleveland K.....	Perforator, rotary type.....	.....
Folders—Tape, double 16's.....	Perforator, punch type.....	.....
Folders—Tape, double 32's.....	Round cornerer.....	.....
Folders—Jobbers up to 38x50.....	Sealing machine.....	.....
Folders—Jobbers over 38x50.....	Rounder and backer.....	.....
Folders—Choppers.....	Casemaker.....	.....
Folders—Special.....	Smashing machine.....	.....
Perfect binder—G. C. S.....	Book presses.....	.....
Indexing machines.....	Stamping machines.....	.....

RULING

	Number		Number
Ruler, under 36-in.; hand-fed, straight.....	L-type.....	.....
Ruler, under 36-in., mech. fed, straight.....	L-type.....	.....
Ruler, over 36-in., hand-fed, straight.....	L-type.....	.....
Ruler, over 36-in., mech'y fed, straight.....	L-type.....	.....

Specializing in:

SPECIAL EQUIPMENT

.....

EXHIBIT B

GENERAL INSTRUCTIONS TO BIDDERS AND
CONTRACTORS FOR PRINTING

United States Government Printing Office, Washington, D. C.

SPECIFICATIONS AND ORDERS

1. Specifications for Federal contract printing are developed for uniform bidding and thus quotations should be based on strict adherence to the specifications. When an alternate bid is made—conditions of quotation other than as specified—it should be clearly indicated as "alternate."
2. Bid forms should be filed in triplicate when a quotation is being tendered. If a quotation is not made, a single form should be filed with the notation "no bid" and signed by an authorized representative of the company.
3. Telegraphic bids are acceptable provided the wire is filed prior to the closing time of bidding. Confirmation of telegraphic bid must be immediately made by submission of bid forms in triplicate.
4. When question arises concerning specification before award has been made refer to the "Jacket Number" in the upper left hand corner of the specifications form.
5. Specifications are submitted for quotation on the facilities within individual plants for purposes of economy, speed, quality, and the fixing of responsibility. The bid request must not be transferred to any other source. When facilities within a firm are not sufficient to perform certain operations required, subcontracting is allowable and the names of such subcontractors must be listed in the bid. Subcontracts for performance of the entire order are not desirable.
6. Notification consisting of a purchase order signed by the Director of Purchases will be given to the successful bidder. Unsuccessful bidders are not customarily notified but information concerning bids received will be furnished upon request.

PLATES, PATTERNS, NEGATIVES, ETC.

7. Electrotpe patterns (for molding printing plates), printing plates, negatives, positives, or copy according to specifications will be furnished contractor f. o. b. Government Printing Office. Patterns are intended for molding only and *not for printing* and wear or damage or alteration caused by other use will be deducted from contractor's bill. The contractor must specify instructions as to shipment. (Pattern plates approximately one oz. per sq. in.)
8. All patterns, plates, negatives, etc., supplied by the Government Printing Office, together with a sample copy or proof, must be returned to the Receiving and Shipping Section, attention Purchase Order No. _____ in the original packages, if practical, immediately upon completion of the order. Payment of invoice for work cannot be made until receipt of plates, etc.
9. Plates, mats, negatives, or other material manufactured or purchased by the contractor from which a Government publication could be reprinted in entirety or in part and overrun quantities on an order are not to be held by the contractor after completion of the order unless specific written permission for such has been granted. All such material must be remelted or destroyed or returned to the Government Printing Office immediately upon completion of the order. Acknowledgment of receipt of above material will be made only upon request.

PAPER STOCK, BINDING MATERIALS, ETC.

10. Paper stock, unless otherwise specified, will be furnished f. o. b. Government Printing Office by the Government Printing Office. Specifications will include size and quantity of stock, which will be the total quantity allowed on the order.
11. In the event stock is furnished direct from the mill and an overrun is delivered, this quantity must be reported to the Government Printing Office and a Government bill of lading will be forwarded for its return or other specific instructions.
12. The contractor must specify the railroad and freight yard to which the paper is to be delivered.
13. When binding or other materials are furnished from the Government Printing Office, specifications will so indicate and material will be shipped f. o. b. Government Printing Office.

PRESSWORK

14. Presswork process will be indicated in specifications and variation will not be acceptable. Inferior work will be rejected at all times. Sixteen- or thirty-two-page signatures are acceptable.

BINDING

15. In padding, a difference of only 3 percent over or under the specified quantity of sheets per pad will be allowed.

WRAPPING, TIEING, PACKING, ETC.

16. Whenever the following terms are used in the specifications, the following interpretation will apply: *Wrap*—The printed work must be wrapped in heavy kraft paper or acceptable substitute, chipboard (0.04) placed on top and bottom of the printed work and sealed with gummed tape. *Wrap and tie*—Chipboard (0.04) must be placed on the top and bottom of the printed work, wrapped with heavy kraft paper, and tied (cross-tied) around both sides of the package wrapped twice with substantial cord or twine. *Tied*—Chipboard (0.04) top and bottom—A piece of chipboard, cut the same size as the printed work, must be placed on top and bottom of the work and tied (cross-tied) around both sides of the package wrapped twice with substantial cord or twine. By *substantial cord* is meant a 16-ply cotton cord or equal.

17. If the order covers more than one form, each form must be packed in separate cartons.

LABELS, DELIVERY, RECEIPT, ETC.

18. Shipping or packing labels should be designed in accordance with sample label submitted all contractors.

19. Labels must show the name of the Department, together with the jacket number, requisition, form number, Government Printing Office order number, and the quantity (number of copies) contained in each package. Number of skids, packages, etc., is not sufficient information for receipt of the order. Transportation companies must be furnished billing by the contractor to cover the contents of each shipment in detail. This detailed information must be carried on the bill of lading and presented to this Office or other consignee at the time of delivery.

20. Truck shipments to Washington, D. C., must be delivered through the Government Printing Office, where an employee will accompany it to its final destination. Bid must be on basis of delivery to final destination as specified and should include cost (if any) of stop at Government Printing Office. Deliveries will be received only between the hours of 8 a. m. and 3:30 p. m. weekdays, and 8 a. m. and 12 noon Saturdays, except when prior special arrangements have been made.

21. Freight shipments in carload lots must be consigned to the Government Printing Office, Washington, D. C., and not to the Government Printing Office Warehouse or Warehouse siding. Unloading and delivery will be at the expense of the contractor. When less than carload-lot shipments are made by freight and hauled direct to the consignees by the railroad companies, this Office should be furnished complete information as to the date shipments are made.

22. No receipt for delivery to Government Printing Office will be accepted unless signed by an authorized Government Printing Office employee.

23. When delivery point is other than Washington, D. C., a receipt in triplicate, signed by the receiving officer, must be procured. The original is to be retained by the contractor, the duplicate given to the receiving office, and the triplicate sent to the Specifications and Contract Section, Planning Division, of the Government Printing Office. This receipt must include the address, itemized quantity, Government Printing Office order number, jacket number, department requisition, and form number plainly indicated. A separate receipt is required for each different form. The receipt must show actual number of copies delivered or whatever unit is specified in order.

24. The maximum weight of any shipping crate (including its contents) should not exceed 250 pounds. When forms are delivered on skids, gross weight of skids (including contents) must not exceed 2,000 pounds.

DISPLAY OF CONTRACTOR'S IMPRINT

25. Contractors are not permitted to display the name of their firm or any trade-mark on finished work or on cartons or labels attached to Government printed matter.

OVERRUNS

26. It is expected that the original bid will include the cost of normal production allowances for waste, spoilage, etc. Overruns of printed matter developed through the occurrence of less waste, spoilage, etc., than anticipated should be delivered to the Government Printing Office, or all paper supplied by the Government Printing Office over the amount required should be returned to the Government Printing Office at the time of delivery of the order (see paragraphs 9 and 11). Payment will not be made for overruns when paper is supplied by Government Printing Office or furnished by the contractor.

INVOICING, EXTRA CHARGES, ETC.

27. Invoice and voucher forms will be supplied to the contractor with the order and must be used in rendering contract charges.

28. Extra charges are not allowable unless a written authorization has been given by the Director of Purchases.

29. Changes in specification of the order affecting the product or delivery must be authorized in writing by the Government Printing Office.

30. When completed work is delivered in quantity less than the original order, a deduction should be made by the contractor on the invoice and voucher pro rata with the total accepted amount of the order.

NOTICE OF RECEIPT OF STOCK, PATTERNS, ETC.

31. Upon the completion of the delivery of patterns, stock, etc., the Government Printing Office must be notified to this effect and the contractor will govern his delivery date accordingly.

EIGHT-HOUR LAW

32. Bidders must comply with the provisions of the Eight-Hour Law, 37 Stat. 137, dated June 19, 1912. Should a contract entered into pursuant to this proposal require or involve the employment of laborers or mechanics in its performance, no laborer or mechanic doing any part of the work contemplated, in the employ of the contractor or any subcontractor contracting for any part of said work, will be required or permitted to work more than 8 hours in any 1 calendar day upon such work. For each violation of this provision a penalty of \$5 will be imposed upon the contractor for each laborer or mechanic for every calendar day in which such employee is required or permitted to labor more than 8 hours upon said work, and all penalties thus imposed will be withheld for the use and benefit of the Government: *Provided*, That this stipulation will be subject to the exceptions and provisions of the act of June 19, 1912, 37 Stat. 137.

33. Under the provisions of section 303, Public, No. 781, 76th Congress, approved September 9, 1940, work in excess of 8 hours per day will be permitted upon compensation for all hours worked in excess of 8 hours per day at not less than one and one-half times the basic rate of pay.

WALSH-HEALEY ACT

34. "Representations and stipulations pursuant to Public Act No. 846, Seventy-fourth Congress," are hereby made a part of the specifications.

35. The provisions of this act are inoperative if the contract is for a definite amount not in excess of \$10,000. If under \$10,000, the provisions of the Eight-Hour Law apply.

CONFIDENTIAL NATURE OF THE WORK

36. Federal Government work, such as is submitted for bids by this Office and specifications therefor, are of a confidential or classified nature, and all information, conversation, and correspondence concerning same should be considered accordingly. All forms or other material submitted as a sample of the work should be returned to the Government Printing Office at the time bids are submitted. The material must be properly marked for identification. Any requests for information arising with the contractor or other source concerning the work should be referred to the Government Printing Office, where proper consideration will be given the request by a duly authorized representative of the Federal Government.

EXHIBIT C

QUESTIONS AND ANSWERS ON CONTRACT PRINTING FOR NATIONAL DEFENSE
United States Government Printing Office, Washington, D. C.

Q. We understand the Government Printing Office is letting out printing to commercial firms. Is that so? How can we be listed to receive some of these orders?

A. Yes. You should fill out a questionnaire in order that the Government Printing Office might have essential information in regard to your equipment. (U. S. Code, title 44, sec. 111a.)

Q. Where may these questionnaires be obtained?

A. Copies may be obtained direct from the Government Printing Office, or from local master printers' associations.

Q. We filled out a questionnaire and sent it in some time ago but have heard nothing from it. Did the Government Printing Office receive it?

A. Because of the number of questionnaires received, it is not the policy of the Government Printing Office to acknowledge receipt of them.

Q. Will any jobs of printing be placed with printers who have not filled in and filed questionnaires?

A. The lists of printers to whom invitations to bid are sent are prepared from the information contained in the questionnaires on file.

Q. To how many firms are invitations to bid sent?

A. To never less than three and as many more as is practical under the circumstances.

Q. Can samples of the types of printing to be let out to commercial printers be obtained from the Government Printing Office?

A. When available. However, in many cases samples are not available, but the invitation to bid will be accompanied by definite and specific specifications as to what is desired.

Q. Are printing plants classified in the Government Printing Office according to the type of work they are best equipped to do, such as pamphlet printing, book printing, form printing, etc.

A. The classification of individual plants is given consideration when surplus printing is to be supplied by commercial plants.

Q. Is it necessary for individual printers to call on the Public Printer in order to obtain business.

A. No; it is absolutely unnecessary.

Q. Is there any advantage for a printer to directly contact the Government Printing Office anticipating opportunities to bid or in the placement of the work?

A. No; it is absolutely unnecessary.

Q. Is it possible to confine the requests for bids to a particular locality or territory?

A. No. The purpose of the law with respect to competitive bidding (R. S. 3709) is to assure to the Government the lowest possible price consistent with the quality desired. (See also Comptroller General's decision, vol. 18, p. 118.)

Q. When bids are opened, to whom is the award of the contract given?

A. To the lowest responsible bidder, provided the low bid is not inconsistent with known costs of producing the same job or jobs in the Government Printing Office. (U. S. Code, title 44, sec. 16.)

Q. In case no acceptable bid is received, what happens?

A. The bids are rejected and the job is readvertised.

Q. Is all the printing purchased by the Government Printing Office from commercial printers bought on a competitive basis?

A. Yes.

Q. Does all National Defense printing for the various Government departments, bureaus, agencies, etc., clear through the Government Printing Office?

A. Yes, with a few minor exceptions provided by law.

Q. When in the exceptional case Government departments advertise for bids on printing direct, does this mean that the Government Printing Office cannot produce the work?

A. Not necessarily. There is provision for the purchasing of certain types of printing by particular agencies of the Government, such as field printing. Other printing for such agencies, when specific authorization is provided by law, may be procured from private sources. (U. S. Code, title 44, sec. 111a.)

Q. Is it possible to give a little longer time between the arrival of the bid sheet in the printer's office and the day on which bids will be opened in Washington?

A. The time of delivery which is fixed by the ordering Federal Agency governs the length of time which can be allowed for the submission of bids. The Government Printing Office has no control over this, but undertakes to allow as much time as possible for the preparation and submission of bids.

Q. Could information be sent as to printing contracts awarded by the Government Printing Office to firms or associations in this section of the country?

A. When an award is made, all information relative thereto becomes public property and is posted in the Government Printing Office.

Q. A bid was recently submitted to the Government Printing Office in accordance with specifications sent us, but we have heard nothing in regard to this matter. Has the award been made?

A. Possibly. If so, the successful bidder was sent an official order for production of the job. Notice is not sent to the unsuccessful bidders.

Q. How can the smaller printer participate in the production of this work?

A. The size of the job naturally determines the kind of plant that is equipped to produce it. Most of the Government orders are for large quantities and for quick delivery; therefore, most of the orders will be filled by the plants having equipment to turn out the job within the specified time.

Q. It has been the impression that it is the Government's policy to encourage the letting of contracts, either directly or through the main contractors, to smaller businesses. Why is it that the Government has let very few contracts for printing to medium-sized plants?

A. The Government Printing Office has awarded contracts to printers of any size whose questionnaires indicated they were equipped to supply the immediate need. Contracts are awarded to but one contractor because of the necessity for fixing responsibility for the completion of the job in a satisfactory manner upon one firm.

Q. Cannot some arrangement be made whereby work can be contracted in certain cities with a subcontractor arrangement so that several plants can be used on production, and make these large jobs available to smaller cities where large plants are not located?

A. See answer to preceding question.

Q. There is scarcely a printing firm in this city whose bindery is sufficiently large and efficient to handle jobs the size of Government orders, and they have to have this part of the work done in outside binderies. Why not give our organization, which represents these binderies, the opportunity to bid for this work direct?

A. This would be giving an undue advantage to a particular group which may not include all of the binderies in a given area. The printer who receives an award will be expected to deliver the completed job within the terms of the specifications. The question of bindery service which he is not equipped to render is a problem for his solution.

Q. Our plants are located near cantonments and other Federal agencies, and since these agencies use printed forms and other printed material, can't they purchase their printing direct from us?

A. Most of the printing needs of military and naval units around the country are for forms, pamphlets, and procedural information originating with their respective departments in Washington. This printed matter has been standardized at headquarters in Washington, and according to law ordered for production in the Government Printing Office. Expense, needless duplication, and waste would result if each of the units were to purchase the same types of forms, and other printed matter in smaller quantities within its own area. (U. S. Code, title 44, sec. 111a.)

Q. Some printers feel that they should have an opportunity of doing some of the Defense work allocated to this State. Why is it that other States have received many orders and few have been received by printers in this State?

A. Defense printing is not allocated to any State. The various governmental departments place their orders direct with the Government Printing Office. Each job presents a separate and distinct requirement. If the job (or jobs) cannot be produced in the Government Printing Office in time to meet the need, invitations to bid for this work are sent to commercial plants whose questionnaires indicate they are best equipped to handle specific jobs. (U. S. Code, title 44, sec. 111a.)

Q. Why doesn't the Government Printing Office distribute this business on a basis of geographical areas, either by States or army corps areas, or something similar?

A. Because the law requiring competitive bidding is designed to give all qualified persons equal rights to compete for Government business irrespective of location. (See Comptroller General's decision, vol. 18, p. 118.)

Q. Approximately what volume of National Defense printing will there be available during 1941 to be produced outside of the Government Printing Office?

A. It is impossible to estimate the amount of such printing that will be produced.

Q. When will the needs of the various governmental departments and agencies be determined?

A. They are being determined daily, and the Government Printing Office has no information as to what they are until the requisition is received in this Office.

Q. In order to get Government printing, is it necessary to operate a union shop?

A. No. However, the Eight-hour Law of 1912 as amended applies to all contracts entered into by the Government Printing Office for printing work, and the Walsh-Healey Act applies to all contracts in excess of \$10,000.

Q. Has any of the overflow work been placed in open shops?

A. As elsewhere stated the award must be made in every instance to the lowest responsible bidder, provided he complies with all existing laws, rules, and regulations.

Q. Are freight costs to be added to and included in the cost of the job?

A. Yes; bids are on the basis of f. o. b. Government Printing Office, Washington, D. C., or f. o. b. at point of destination if other destination is specified. Comptroller General's decision, volume 16, page 729 states: "The decisions of this office have been to the effect that cost of delivery is always a matter for consideration by the Government in determining which is in fact the lowest bid received."

Q. In view of the fact that a lot of the Government printing is used in various parts of the country, why is it all purchased on a basis of f. o. b. Washington?

A. All such printing is not purchased on the basis of f. o. b. Washington. Delivery is made at the point designated by the ordering agency of the Government. These places are widely separated throughout the whole country.

Q. Where long freight hauls are necessary, is there any way to arrange that the job might be considered delivered when it has been delivered to the railroad or trucking company at the point of manufacture?

A. No; not without taking into consideration all transportation charges.

Q. Is it possible, in bidding, to equalize freight rates?

A. No, because the necessity for delivering the finished product at the point of destination cannot be avoided.

Q. Cannot something be done about the freight differential which works a handicap against the supplier in a city more remote from Washington, D. C.?

A. This is an economic question which does not appear to be within the scope of practical determination in connection with current emergency printing.

Q. When delivery is to be made to the Government Printing Office, Washington, D. C., by freight, is it necessary to add cartage in Washington?

A. No; but if delivery is to be made to the Washington freight yard for ultimate transportation to a point of destination in Washington, cartage will be a part of the transportation expense.

Q. Why is paper supplied by the Government Printing Office on printing purchased?

A. Because experience indicates that it is cheaper for the Government to supply the paper. Moreover it places prospective bidders on a more equitable basis in bidding.

Q. When individual printers bid on specifications furnished by the Government Printing Office, is it permissible to specify size of paper desired and obtain same if the printer is the low bidder?

A. If the specifications state the size of sheet which will be furnished, bids will be considered only on such size. If no size is stated in the specifications, the contractor has the right to specify the size he will use.

Q. Will paper supplied by the Government Printing Office be delivered to the printer?

A. Usually paper is supplied f. o. b. contractor's city. This means that contractor must arrange and pay for cartage from the freight yard in his city to his plant.

Q. Cannot some arrangement be made to make partial delivery, with an extension of time for final delivery? Most of the specifications we have seen demand complete preference of productive facilities over regular work. We welcome the opportunity to do Government printing but feel that an injustice is done regular customers if their work must be shunted aside on short notice and the entire plant given over to an occasional Government job.

A. When time permits, the specifications provide for partial delivery, with other quantities delivered at specified times.

Q. Is all the printing purchased on the outside by the Government Printing Office reprint material which was originally produced in the Government Printing Office?

A. The greater portion is reprint material.

Q. Why does the Government Printing Office almost always supply pattern plates on printing purchased?

A. On reprint jobs this avoids the necessity for composition in the commercial plant, guarantees uniformity of type style and facilitates the production of the completed job. The patterns are then available for future reprints if new plates are necessary due to plates wearing out.

Q. Is the National Defense printing purchased through the Government Printing Office confined to letterpress printing or is there any considerable volume of offset involved?

A. All processes are used. The particular process for a specific job is stated in the specifications. If a particular process is stipulated in the specifications, no variation will be accepted.

Q. We have been informed that on many contracts for printing Government Defense work, electrotype plates have been furnished the contractor. Does the Government Printing Office follow the same practice in awarding work to offset plants by furnishing negatives?

A. Negatives are furnished when such are available in the Government Printing Office or where such practice is deemed most advisable. Where negatives are not furnished, reproduction proofs or clear reprint copy is supplied.

Q. Since the Government Printing Office is not called upon to do four-color process work in large volume, will such work be placed in cities specializing in this field, and will photoengravings, electrotypes, negatives, or positives usually be supplied with the printing and binding of such work?

A. Invitations to produce jobs of this character will be issued to firms whose equipment appears to qualify them to do such work. Photoengravings and electrotypes, etc., in most cases, will not be supplied.

Q. A recent job specification on which estimates were sought did not convey a very accurate idea of the ink coverage required on a four-color poster. Would it not be possible to supply a photographic reproduction of the copy in such cases?

A. When this is possible, it will be done. Usually a sample for approximating ink consumption will be supplied.

Q. The service plants are an important cog in our production machine. We have for years served clients extremely critical on the confidential angle, without difficulty. Will such a relationship be a handicap upon the possibility of securing Defense printing?

A. No.

Q. How do the prices charged by the Government Printing Office compare with commercial prices?

A. Commercial prices are variable. Government Printing Office prices approximate prices charged for work done under comparable efficient conditions in commercial plants.

Q. In the regulations of the Joint Committee on Printing there are a number of allotments set up for the purchase of field printing by various departments of the Government. How and from whom may a printer get business in connection with this field service printing?

A. By contact with the agencies in the field which have authority to produce field printing.

Q. Are imprints permitted on work done for the Government?

A. No.

Q. What are the functions of the Advisory Committee?

A. The Advisory Committee was organized to help the Public Printer in the distribution of the questionnaires throughout the United States. It was felt that the committee included the key men in the different sections of the country, and knowing their particular sections, could cooperate and get the necessary data to the Government Printing Office more efficiently. Other duties will be assigned as necessity requires.

Q. What relationship have the members of the Public Printer's Advisory Committee to the selection of plants, or to the awarding of contracts?

A. The functions of the Advisory Committee do not include the selection of plants or the awarding of the contract.

Q. Why can't my Representative or Senators help me to get some Government printing?

A. Because contracts are necessarily awarded in accordance with established laws, rules, and regulations.

Q. If, for any reason, I do not care to bid on a particular request, should I return the proposal form?

A. If a bid is not to be made, the proposal form should be filled out with a notation "no bid, equipment filled," or other reason for not bidding should be stated and the proposal form returned to the Government Printing Office just as if a bid were being offered.

Mr. HOLCOMB. I asked Mr. Henderson to secure further facts on the number of contracts, the number of contracts let to private firms.

He again interviewed Mr. Herrell of the Government Printing Office.

Mr. Herrell estimates that the contracts which the Government Printing Office has awarded to private concerns has amounted to approximately 10 percent of their current volume; meaning 10 percent of the current amount of work that the Government Printing Office is doing.

Since October 25, 1940, they have let out 1,869 printing awards to private concerns to 256 private printers who have participated in these awards. I repeat that 1,869 contracts of printing orders have been awarded to 256 private firms.

As I have already stated, he repeated that these awards were not always made to the lowest bidder.

Mr. Herrell says that all their employees are under the civil service.

The CHAIRMAN. Mr. Holcomb, have you got the names of those recipients of those contracts?

Mr. HOLCOMB. No, I do not have those.

The CHAIRMAN. I wish you would get those names, so we could then insert them into the hearing.

Mr. HOLCOMB. I should be glad to do that. I believe the Government Printing Office could readily supply them. I would be glad to ask them to supply them for the committee if your counsel—

The CHAIRMAN. We would like to get them, and see just what part of the country they come from.

Mr. HOLCOMB. If Mr. Kirkland will get in touch with me tomorrow in Washington, why we will see.

(The matter referred to is as follows:)

UNITED STATES GOVERNMENT PRINTING OFFICE,
Washington, D. C.

COMMERCIAL PRINTING FIRMS RECEIVING GOVERNMENT PRINTING CONTRACTS
FROM OCTOBER 23, 1940, TO MARCH 7, 1942

Furnished to Select Committee to Conduct a Study and Survey of the National Defense Program in Its Relation to Small Business of the United States, House of Representatives, in accordance with the request of the chairman made during the hearings held on March 4, 1942, in Detroit. (See page 477 of hearings.)

Alabama:

Birmingham: Boutwell-Foster Co., Inc.

California:

Emeryville: Pacific Manifold-
ing Book Co., Inc.

San Francisco:

H. S. Crocker Co., Inc.
Independent Pressroom.
Phillips & Van Orden Co.

California—Continued.

Los Angeles:

Citizen Print Shop, Inc.
Ford, Ellis & Co., Ltd.
Times-Mirror Printing & Bind-
ing House.
Trade Press Room, Inc.

Colorado:

Denver:

Kistler Stationery Co., The
W. H.
Smith-Brooks Printing Co.

COMMERCIAL PRINTING FIRMS RECEIVING GOVERNMENT PRINTING CONTRACTS FROM OCTOBER 23, 1940, TO MARCH 7, 1942—Continued

- Connecticut:**
 Greenwich: Conde Nast Publications, Inc.
 Orange: Wilson H. Lee Co.
 New Haven: Steinback & Sons, Inc., A. D.
 Rockville: United States Envelope Co.
- Georgia:**
 Atlanta: Dittler Bros.
 Foote and Davies, Inc.
 Decatur: Bowen Press.
 Fort Benning: Commandant, the Book Shop, The Infantry School.
- Illinois:**
 Chicago: American Colortype Co.
 American Decalcomania Co.
 American Offset Corporation.
 The Blakely Printing Co.
 Buckley-Dement & Co.
 Cuneo Press.
 Excelsior Printing Co.
 Franklin Bindery.
 Gentry Printing Co.
 W. F. Hall Printing Co.
 The Inland Press, Inc.
 International Harvester Co.
 Lincoln Printing Co.
 George F. McKiernan & Co.
 Magill-Weinsheimer & Co.
 John Maher Printing Co.
 Mans Corporation.
 The Marshall-White Press.
 Maxwell-James Printing & Lithograph Co.
 Meyercord Co.
 Neely Printing Co.
 Newman-Rudolph Lithograph Co.
 C. O. Owen & Co.
 Rand-McNally & Co.
 The Regensteiner Corporation.
 Rockwell-Barnes Co.
 Runkle-Thompson-Kovats, Inc.
 H. C. Sherman & Co.
 Sleepeck, Helman Printing Co.
 The Wesel Co.
 Mt. Morris: Kable Bros. Co.
 Oak Park: Pioneer Publishing Co.
- Indiana:**
 Hammond: W. B. Conkey Co.
 Indianapolis: Bookwalter-Ball-Greathouse Printing Co.
 William B. Burford Printing Co.
 South Bend: Campbell Box & Tag Co.
- Iowa:**
 Des Moines: The James M. Pierce Corporation.
- Kansas:**
 Fort Leavenworth: Book Department, Command and General Staff School.
- Kentucky:**
 Louisville: Standard Printing Co.
- Maryland:**
 Baltimore: The Address.
 Baltimore Salesbook Co.
 Ben Franklin Press.
 Commercial Envelope Co.
 Dulaney-Vernay Co.
 Fleet-McGinley, Inc.
 French-Bray Printing Co.
 Garamond Press.
 The J. E. Gerding & Co., Inc.
 A. Hoen & Co., Inc.
 George W. King Printing Co.
 The Maurice Leeser Co.
 Lord Baltimore Press.
 Maran Printing Co.
 Meyer & Thalheimer.
 Monumental Printing Co.
 Oles Envelope Corporation.
 Postagraph Co.
 Reese Publicity Co., Inc.
 Romm Press.
 Waverly Press.
 Whitaker Paper Co.
 Wolk Printing Co.
 Denton: Rue Publishing Co.
 Ilchester: Bartgis Bros. Co.
- Massachusetts:**
 Boston: Buck Printing Co.
 Forbes Lithograph Manufacturing Co.
 Framingham: Dennison Manufacturing Co.
 Lawrence: Pierce Lithographic Corporation.
 Norwood: Berwick & Smith Co.
 Springfield: Phelps Publishing Co.
 Springfield Printing & Binding Co.
 Waltham: Potter Press.
- Michigan:**
 Detroit: Bornman & Son, John.
 Federal Lithograph Co.
 Mulford Co.
 Wolfe, Inc.
 Grand Rapids: Dean Hicks Co.
 Standard Press.
 Wayne: W. B. Farrell Associates, Inc.
- Minnesota:**
 Minneapolis: Harrison & Smith Co.
 Jensen Printing Co.
 St. Paul: McGill Warner Co.

COMMERCIAL PRINTING FIRMS RECEIVING GOVERNMENT PRINTING CONTRACTS FROM
OCTOBER 23, 1940, TO MARCH 7, 1942—Continued

Missouri:

Kansas City: La Rue Printing Co.
St. Louis:
George D. Barnard Stationery
Co.
Blackwell Wielandy Co.
Britt Printing & Publishing
Co.
Burgess Printing Co.
Buxton & Skinner Printing &
Stationery Co.
Cap-Keystone Printing Co.
Collins Printing Co., H. S.
Comfort Printing & Stationery
Co.
Garrison-Wagner Printing Co.
Hart Printing Co.
Kohler Printing Co.
Mendle Printing Co.
James Mulligan Printing &
Publishing Co.
Simmons-Sisler Co., Inc.
Universal Printing Co.
Von Hoffman Press.
Wolff Printing Co.

New Jersey:

Belleville: Sweeney Lithograph Co.
Camden:
The Haddon Craftsmen, Inc.
Levering-Riebel Co.
Clifton: American Colortype Co.
Hoboken: Publication Corporation
Alco Gravure Division.
Jersey City:
Arvey Corporation.
Jersey City Printing Co.
Trenton:
Hibbert Printing Co.
Trenton Times.

New York:

Buffalo:
J. W. Clement Co.
Sales Lithograph Co.
Glendale: P. L. Andrews Corpo-
ration.
New York:
Acwell-Tone, Inc.
American Book-Stratford
Press, Inc.
P. L. Andrews Corporation.
Ar-Kay Printing Co., Inc.
Arrow Press Inc.
Bauer Lithograph Co.
Berlin and Jones Co.
Louis C. Berrian, Inc.
Blanchard Press Inc.
Brett Lithographing Co.
Brooklyn Eagle Press.
Bryant Press Inc.
Burr Printing House.
Canterbury Press Inc.
Carey Press Corporation.
Conway Printing Co.
Correct Printing Co., Inc.

New York—Continued.

New York—Continued.
Criterion Advertising Co., Inc.
Davis Delaney & Harris Inc.
Dependable Printing Co.
Eilert Printing Co.
Einson-Freeman, Inc.
Eldredge Co.
Elliot & Co., Inc., H. R.
Ever Ready Label Corpo-
ration.
Fitzhugh, William W., Inc.,
Charles Francis Press, Inc.
Gordon Press, Inc.
Grinnell Lithographic Co., Inc.
Guide Printing Co.
International Press.
Isaac Goldmann Co.
Kindred, Maclean & Co., Inc.
Horace S. Kipe.
Lenz & Reicker, Inc.
Lincoln Engraving & Printing
Corporation.
Longacre Press Inc.
Mail & Express Printing Co.
Meerow Press, Inc.
Mercury Lithographing Cor-
poration.
L. Middleditch Co.
National Process Co.
James F. Newcomb Co., Inc.
Oberly & Newell Lithograph
Corporation.
C. J. O'Brien, Inc.
Offset Reproductions, Inc.
Pace Press, Inc.
Pal'n Brothers Decalcomania
Co.
Polygraphic Co. of America,
Inc.
Publishers Printing Co.
Read Printing Co.
Rogers, Kellogg, Stillson, Inc.
Rogowski Co., Inc.
Rothechild-Fink Corporation.
Roy Press.
Sawdon Co., Inc.
Schilling Press, Inc.
Schneider Press, Inc.
Snyder & Black, Inc.
Spurgeon Tucker.
Steinberg Press, Inc.
Strawberry Hill Press, Inc.
Tension Envelope Corpora-
tion.
The U. S. Printing & Litho-
graph Co.
Van Rees Press.
Virginia Plak Co., Inc.
Western Newspaper Union.
Wickersham Press, Inc.
Niagara Falls: American Salesbook
Co., Inc.

COMMERCIAL PRINTING FIRMS RECEIVING GOVERNMENT PRINTING CONTRACTS FROM
OCTOBER 23, 1940, TO MARCH 7, 1942—Continued

- New York—Continued.**
 Poughkeepsie: Western Printing & Litho Co.
 Rochester: Stetcher-Traung Lithograph Corporation.
- North Carolina:**
 Charlotte: Standard Printing Co.
 Raleigh:
 Edwards & Broughton Co.
 Mutual Press.
- Ohio:**
 Ashland: A. L. Barber Co.
 Cincinnati:
 S. Rosenthal & Co., Inc.
 Commercial Printing & Lithographing Corporation.
 Danner Press, Inc.
 Cleveland:
 Cleveland Shipping News.
 Continental Lithographing Corporation.
 Corday & Gross Co.
 Wolf Envelope Co.
 Columbus:
 Carroll Press, Inc.
 The F. J. Heer Printing Co.
 Stoneman Press.
 Dayton:
 Dayton Envelope Co.
 Horstman Printing Co.
 Otterbein Press.
 Reynolds & Reynolds Co.
 Massillon: The John Igelstroem Co.
 Norwood: Strobridge Lithographing Co.
- Oregon:**
 Portland: James, Kerns & Abbott Co.
- Pennsylvania:**
 Harrisburg: The Telegraph Press.
 Lancaster: Lancaster Press, Inc.
 Philadelphia:
 Allen, Lane & Scott.
 Bingham Co.
 Chilton Co.
 Cuneo Eastern Press, Inc.
 Dunlap Printing Co.
 Joseph Hoover & Sons Co.
 Hughes, Russell C.
 Frank D. Jacobs Co.
 Ketterlinus Lithograph Manufacturing Co.
 Keystone Envelope Co.
 George F. Lasher Printing Co.
 McCandlish Lithograph Co.
 MacCalla & Co., Inc.
 Majestic Press.
 Stern & Co., Inc., Edward.
 T. A. Winchell & Co., Inc.
 Zabel Brothers Co., Inc.
- Pennsylvania—Continued.**
 Pittsburgh:
 Arrow Press Corporation.
 Herbleck & Held Printing Co.
 Republic Bank Note Co.
 West Chester: The Denny Tag Co.
- Virginia:**
 Fort Belvoir: Engineer School.
 Newport News: Newport News Overfold Co.
 Richmond:
 Baughman Stationery Co.
 Cussons, May & Co., Inc.
 L. H. Jenkins, Inc.
 Virginia Stationery Co., Inc.
 Williams Printing Co.
 Roanoke: Roanoke Printing Co., Inc.
- Tennessee:**
 Nashville: Baird-Ward Printing Co.
 Kingsport: Kingsport Press, Inc.
- Texas:**
 Houston: Gulf Publishing Co.
 Galveston: American Printing Co.
- Washington:**
 Seattle: Metropolitan Press.
- West Virginia:**
 Charleston:
 Mathews Printing & Lithographing Co.
 Jarrett Printing Co.
- Wisconsin:**
 Milwaukee:
 Gugler Lithographic Co.
 Moebius Printing Co.
- Washington, D. C.:**
 Acme Printing Co.
 Byron S. Adams.
 Alpha Process Co.
 American Electrotype Co., Inc.
 R. P. Andrews Paper Co.
 Army War College.
 Wm. C. Ballantyne.
 Barton Duer & Koch Paper Co.
 Caslon Press, Inc.
 Claude T. Clements.
 Columbia Planograph Co.
 Cornellius Printing Co.
 Rufus H. Darby Printing Co.
 Doyle Printing Service.
 Eusey Press.
 Federal Lithograph Co.
 Gibson Brothers, Inc.
 M. S. Ginn & Co.
 Graphlo Arts Press, Inc.
 Guthrie Lithograph Co.
 Hanes Lithograph Co.
 Hayworth Printing Co.
 Jarboe Printing Co.
 Judd & Detweiler, Inc.
 Kaufmann Press, Inc.

COMMERCIAL PRINTING FIRMS RECEIVING GOVERNMENT PRINTING CONTRACTS FROM
OCTOBER 23, 1940, TO MARCH 7, 1942—Continued

Washington, D. C.—Continued.

Kirby Lithographic Co., Inc.
Law Reporter Printing Co.
Mercury Press.
Mount Vernon Print Shop.
National Capital Press, Inc.
National Lithograph Co., Inc.
National Publishing Co., Inc.
Potomac Electrotype Co.
Ransdell, Inc.
Remington Rand, Inc.
A. L. Sauls Planograph Co.
Franc E. Sheiry.

Washington, D. C.—Continued.

Trades Unionist.
United Publishing Co.
United States Coast and Geodetic
Survey.
Walling Process, Inc.
Washington Mat Service.
Washington Planograph Co., Inc.
Washington Post.
Washington Printers, Inc.
Elmo J. White.
Williams & Heintz Co.
Wilson Printing Co.

The CHAIRMAN. You may proceed.

Mr. HOLCOMB. Mr. Herrell stated all their employees are under the civil service, and that this has a bearing for the reason it is the duty of the Government Printing Office to do almost all Government printing, and it is their duty to keep their civil-service employees as busy as possible. Therefore, it is not a question of having the ability to appropriate more work out to private concerns, for the reason that the law and the policy of the joint committee of Congress to do all the Government printing that is possible to do in the Government Printing Office and to only let out such contracts as they are unable to handle, and that to change this system it will be necessary to seek additional legislation, and to also succeed in getting the Joint Committee on Printing to change their present policy.

It might be well to give a citation of the U. S. Code, section 1, title 44 of the U. S. Code. That is the law regulating Government printing.

The CHAIRMAN. You can have that inserted in your statement there.

Mr. HOLCOMB. Yes.

I would suggest for the committee's consideration that one of two policies—I would have the committee consider the present policy of the Government Printing Office; that is, to do all the work it possibly can do, and I understand it is working 24 hours a day, 6 days a week; or to let out to the private firms all the work it can possibly let out.

The CHAIRMAN. Do you have any figures or information as to the increase in the employment personnel of the Government Printing Office since the beginning of the war emergency?

Mr. HOLCOMB. An employee whom I consulted on this matter, who was with the Government Printing Office—he went with them 7 years ago—stated that at the time of his employment there was something around 3,000 employees in the whole Office, and that today there is—the Government Printer is a man by the name of Giegengack.

Mr. PLOESER. That is right.

Mr. HOLCOMB. He states there are over—well, approximately 8,000 employees in the Government Printing Office.

From purely the academic viewpoint of this matter, it would appear particularly to those engaged in private printing that in view of the circumstances that there is less advertising being done, that the private printer in the large and in the small towns as well is faced with

a gradual shut-off of his normal revenue; that this committee might well consider recommendations to the Congress or to the proper committee in the Congress, that whatever laws that are blocking a different policy be amended or changed to allow or to require perhaps the Government Printer to keep in the Government's shop only two classes of printing. First, of course, the confidential printing that just couldn't be let out to the small operator, or I mean to the private operator; second, that type of printing that where time is the essence, such as Congressional Records, the report of committees, and so on.

Such a policy would undoubtedly bring about certain personnel dislocation. That is, those employees that are in the Government Printing Office—those that have been following the housing situation in Washington, and that have been following announcements from the Office of Facts and Figures, realize that there is going to be more defense employees of civil-service status required, and so it has been suggested that a sound procedure would be that if the Government Printer, let's say, could get by with 3,000 employees, that those 5,000 employees be reassigned to other agencies of Government who are looking for personnel and looking for clerical assistance right today.

The CHAIRMAN. Well, of course, those people engaged over there are mostly printers themselves?

Mr. HOLCOMB. I believe you will find—

The CHAIRMAN. But, we intend when we get back to Washington to have the head printer testify before this committee, and we will try to get the general idea on the problems here in the city of Detroit.

Mr. HOLCOMB. I have a letter from Chattanooga, Tenn. He gives, I believe, a pretty comprehensive—this is a copy of a letter to Chairman Patman.

The CHAIRMAN. You may insert that in the record. We are only going to be here today, and we are awfully anxious to get the actual story of the men here in the city of Detroit. So, any further information you have, Mr. Holcomb, you may insert in the record in your statement. Thank you.

(Whereupon the letter referred to by Mr. Holcomb is in the words and figures as follows, to wit:)

DEARING PRINTING Co.,
Chattanooga, Tenn., February 26, 1942.

Congressman WRIGHT PATMAN,
House Office Building, Washington, D. C.

DEAR MR. PATMAN: I am referred to you by Mr. Guy Holcomb, to whom I wrote regarding the problems of the small businessman, particularly the printer. As I am the president of the Chattanooga Printers Club, I am familiar with the problems of the local printers which are, no doubt, the same in other parts of the country as here.

There are 39 listed printers in the Chattanooga area. Most of them do not have equipment, to do a complete printing job. Many of them have only one job press with an assortment of type for hand composition. They get their type at the one commercial composing plant in the city. Although these little plants are leading a precarious existence they support from one to three families each and, in the aggregate, do considerable printing. They are becoming desperate as their customers turn their facilities more and more to defense work and require less printing and no advertising.

Speaking for my plant which has linotype, automatic and cylinder presses, and its own bindery, we have had a considerable let down in our volume of work. Our loss for the month of January 1942 alone was nearly \$300 although January

is generally one of our best months. Obviously we cannot continue in business at this rate. We have made it a point to try for defense printing but our dollar volume for defense work in January was only 16 percent.

It has occurred to me that something like the following might be worked out: One printer in a territory of this size could be designated as the printing coordinator and orders placed through him for Government printing, particularly that used in the locality. He would be obliged to give out this work on some sort of a percentage basis to plants in the area as far as their equipment permitted and his plant would be included in this percentage basis. For this he would not of course receive any remuneration.

We have worked up some business in printing war-production forms and have sold some of them outside the city as far north as Pennsylvania and New Jersey. These forms should be procurable through the local boards but many times they cannot be obtained here, or in Knoxville or even in Atlanta. It is my opinion that the printing used locally should be produced locally as far as possible.

It should not be necessary to secure bids because the printers have a proper yardstick of prices which had to be followed in the old N. R. A. days. Every printer of any size at all has the Franklin price list and practically every job can be figured from it unless it requires some special treatment.

I would appreciate it if you would keep me in mind and advise about the deliberations of your committee. If I can secure information for you or help in any way I would be most happy to do so.

Yours for victory,

FRED KEHEW.

The CHAIRMAN. First, gentlemen, Mr. Arthur W. Winter.

STATEMENT OF ARTHUR W. WINTER, CHAIRMAN, DETROIT DISTRESSED PRINTING INDUSTRY COMMITTEE

The CHAIRMAN. Mr. Winter, you may state your name, and your affiliation, where you reside, and I wish to ask you a question. I notice you are representing the Detroit Printing Industry Committee, and you have specified there distressed printing Industry committee.

Now, in making your general statement, are you speaking in behalf of the other members that are listed here to be heard?

Mr. WINTER. That is right.

The CHAIRMAN. You are making a general statement?

Mr. WINTER. That is right.

The CHAIRMAN. All right.

Mr. WINTER. My name is Arthur W. Winter. I am president of the Evans-Winter-Hebb, Inc., Detroit.

The CHAIRMAN. You may sit down.

Mr. WINTER. Thank you.

I have been engaged in the printing, lithographing, and engraving business in Detroit for about 37 years.

The CHAIRMAN. Mr. Winter, would you just hold that a minute? The newspaper men would like to get a picture.

Now, Mr. Winter, before proceeding, how long do you intend to take to make your statement?

Mr. WINTER. Well, I would say probably 25 minutes.

The CHAIRMAN. I see. And are there any other statements on this list that was handed to me? Are they going to make statements also?

Mr. WINTER. Yes; but the others will be rather short.

The CHAIRMAN. The reason is, we want to determine so that we can be fair and impartial to you and to the rest, because we are only going to be here today.

Mr. WINTER. I think I am going to highlight the conditions of the entire industry in the city of Detroit, and mine of necessity will be longer.

(Whereupon Mr. Winter read his statement to the committee, and it is in the words and figures as follows, to wit:)

STATEMENT OF ARTHUR W. WINTER, PRESIDENT, EVANS-WINTER-HEBB, INC., PRINTERS, DETROIT, MICH., IN BEHALF OF AND AS CHAIRMAN OF DETROIT PRINTING AND LITHOGRAPHING AND ALLIED TRADES DISTRESS COMMITTEE

Mr. Chairman, and members of the committee. I am speaking as a member of the Detroit Printing and Lithographing Distress Committee, representing the printers, lithographers, and allied industries of this area, such as engravers, typesetters, electrotypers, paper merchants, and others.

In order to save your time and to make this statement as direct and clear as possible, I should like to have the privilege of reading it.

We are dealing here with the problem of a distressed industry. To appreciate its problems, it is necessary to review briefly some local and trade history.

When the automobile industry started here, most of the plants were of modest size, as were the printing plants which supplied such printed matter as they needed. As the automobile industry grew, the local printing industry grew with it. The demands constantly became larger and more exacting. We installed special presses and other machinery and built up organizations to serve these specialized needs, and of necessity were forced largely to ignore other possible sources of business outside of this area.

For more than 30 years the automobile industry has depended on the advertising printers, lithographers, and allied trades for the creation and production of sales literature, direct advertising, and sales promotion. Our equipment is best suited for these kinds of work and our workmen are all skilled craftsmen capable of doing quality, multicolor printing requiring precision workmanship of the highest order.

Prior to the depression, all these allied trades maintained an adequate apprentice system. But as a result of the depression this had to be abandoned. It was difficult to keep even journeymen craftsmen partially employed.

Now a further dislocation has occurred. Our skilled workers are being forced to find other means of livelihood, or to move to other communities. Very quickly almost the entire skilled personnel of these industries will be dispersed so that they can never be assembled again unless work is provided for the plants in this distressed area.

Detroit as a printing center cannot be compared with cities where the printers have long been accustomed and equipped to derive a livelihood from the whole broad field of printing—publications, mail-order catalogs, food containers, labels, books, and so forth. For a generation, circumstances have compelled us to concentrate almost entirely on serving the automotive industry.

In this, as in other respects, Detroit is essentially a one-industry city—the automotive industry. The overnight conversion of this great industry to war work has consequently suddenly deprived the printing, lithographic, and allied trades here of 80 percent or more of their normal volume.

Naturally, we have done our best to make good this tremendous loss by canvassing other possible buyers of printing. But we face an almost insurmountable obstacle due to the fact that these other markets have so long been preempted by printers in other cities who have specialized facilities with which it is practically impossible for us to compete.

Even if we were able to compete successfully for such business, we would merely help to spread dislocation by taking away business from printers in other cities.

The only market that remains to us is the Government—the biggest buyer of printing in the country.

This is true of a great many other industries. But, unlike them, we find that the Government which might well be our biggest customer is actually our biggest competitor.

The Government is not taking the bread out of the mouths of steelworkers by setting up its own steel mills. The Government is not depriving farmers of a livelihood by setting up Government farms. But the Government is actually driving printers out of business by entering into direct competition with them.

The two largest printing plants in the whole world are the Government Printing Office and the Bureau of Engraving. In addition, I am told, the Government owns and operates at least 100 other printing plants of one kind and another, 36 of these being in various Army camps.

While printers, lithographers, and allied industries here and elsewhere stand idle in dismay and see their business dwindle day by day, the Government printing facilities keep swelling with mushroom-like rapidity.

Such a situation as this was never contemplated by the people or the Government of the United States when the Government Printing Office was established. It was intended to meet the normal needs of the Federal Government. But during the past 8 years the capacity of the Government Printing Office has been more than doubled. We understand it is now working three shifts a day, 7 days a week. It is just as if the Government arsenals were to attempt to meet the need for shells and ammunition by confining all the work to Government arsenals.

Another important aspect of this situation is that each time the Government expands its printing facilities, or sets up another printing division in an Army camp, it impairs the country's war work. The manufacturers of printing machinery have converted their industry almost entirely to war work. When they are suddenly called on to build new printing equipment for the Government, they have to reduce their work on gun mountings and things of that kind. Furthermore, they have to draw on the country's precious reserves of metal and other supplies.

And so far as the Army plants are concerned, it means that able-bodied men who enlisted for active service are put to doing printing which might just as well be done by civilian printing plants now in distress through the wiping out of their normal markets.

We do not think this situation is right. We believe that the interests of the country would be better served if a larger share of Government printing were to be diverted to printing and lithographing plants in distressed areas.

It is true that some Government printing is now placed outside of Government plants. But this is done on the basis of competitive bidding. Precious days are wasted in sending out specifications and requests for bids, waiting for estimates from private plants, analyzing the bids, purchasing materials, and finally awarding contracts.

And usually, this system of getting bids puts all fair bidders at a disadvantage by forcing them to meet bids from regions where subnormal wages and working conditions prevail.

We believe that precious time could be saved, and the urgent printing needs of many Government agencies met by adopting the policy followed by the War Production Board whereby contracts are negotiated and then reviewed on completion as a check against excess profits.

Detroit printers, lithographers, and allied industries are well qualified to meet the Government needs.

The facilities here of the 30 plants who filed questionnaires with the Government Printing Office about a year ago are capable of handling \$12,000,000 worth of business per year, employing 4,130 people.

In January and February 1942 the volume of printing dropped more than 80 percent. There will be a still further decline unless the Government helps to check it.

We are not asking for charity. We feel that our industries are as well qualified to serve the Government as they have so ably served the automotive industry. We are capable of doing a complete job. Not only can we do the actual printing—the presswork—but we can handle all the preparatory steps as well—setting the type, procuring the art work, making the engravings and all the rest of it. We can relieve hard-pressed Government agencies of an enormous burden.

In addition to this, Detroit is very favorably situated geographically. Government printing can be shipped and distributed from here from coast to coast, just as efficiently as the automotive industry's printing has been distributed. Paper

and other supplies are also available here so that there would be a minimum demand on the overburdened transportation facilities.

Let me repeat that we are not asking for charity. But in behalf of all these printers, lithographers, and allied industries of this distressed area, I am making an earnest appeal to have the Government recognize our need for help.

We are not seeking a subsidy. We are only seeking an opportunity to do a share of the printing required in the Nation's war effort. We are not looking for profit. We are looking only for a chance to preserve our business and to maintain our employed personnel.

We are an integral part of the Nation's fifth largest industry. We feel that we have a worthy part to play in the Nation's war effort and in the reconstruction to follow. All that we ask is that we be kept from disintegration and our facilities put to work as those of other industries have been.

RECOMMENDATIONS

I have tried to give you a true picture of the distress conditions prevailing in the printing, lithographing, and allied trades in this area. Now in behalf of the distress committee, I would like to respectfully submit certain recommendations. It is our hope that these will be given serious consideration as practical steps to prevent our plants from closing their doors.

1. To divert a portion of the volume of printing now taxing the facilities of the Government Printing Office, it is recommended that the Government Printing Office's regular schedule of working hours and shifts be restored and that the excess volume be placed through negotiated contracts with private printing plants in the areas where the greatest percentage of economic dislocation due to the war effort is apparent.

2. That all Government printing and lithographing requiring more than one color, such as posters, booklets, folders, placards, publications, banners, etc., and such other work as is not suited to the production facilities of the Government Printing Office be placed with private printing plants in distress areas on a contract basis consistent with the present policy of the War Production Board.

3. That permission be granted to Government agencies to negotiate printing contracts directly with distressed printing establishments thereby eliminating delay in the production of printing so urgently needed in the prosecution of the war. Because of our more than 30 years' experience in planning and developing printing for the automotive and other industries, including the preparation of art work, composition, electrotypes, and all other preparatory steps, we recommend further that Government agencies be empowered to turn jobs over to us complete so that all branches of the graphic arts here may be employed. This will insure more efficient control of each job and will result in the delivery of jobs in much shorter time than under present arrangements.

4. That consideration be given to the fact that in the distressed Detroit area a workable plan can be evolved to pool idle equipment and manpower to produce efficiently and with dispatch, any commission regardless of size. To further this plan, the distressed industries could jointly maintain a Washington service bureau—a technical advisory and planning office—for direct contact with Government agencies in need of color printing and other promotional material.

5. That consideration be given to the fact that by permitting Detroit organizations to purchase paper from mills nearest to Detroit, the paper sizes best adapted to Detroit presses can be provided, relieving overburdened transportation facilities and reducing carrying charges on stock.

6. That consideration be given to Detroit's favorable geographical situation because of which distribution of printed material to all parts of the United States can be effected more economically than from Washington.

7. That consideration be given to the President's Executive order of January 14 whereby, "Negotiated contracts without competitive bidding are permitted and recommended." The announced policy of the War Production Board is to negotiate all contracts and to spread work through subcontracting to small establishments. All printing related to the war effort should be placed in this category.

8. That Army and Navy printing specifications which are not conducive to efficient production on available equipment and standard sheet sizes, or which result in needless waste of paper stock, shall be referred to the War Production Board, printing and publishing branch, for study and revision.

9. That any plan based on the foregoing recommendations take due recognition of demonstrable conditions of dislocation due to war production and that plants which have suffered a loss of 50 percent or more of their volume be give preferential consideration in the placement of Government printing, lithography, and related business. Since no other city in the country can demonstrate such serious dislocation, we are certain that the interests of the Government and the need of employers and employees in this area will be served by such a plan and that future anticipated cases of dislocation in the industry can be provided for.

Detroit printing, lithographing, and related industries need help badly. Without immediate action, many additional plants will be forced to close.

We feel that the printing industry—the nation's fifth largest industry—is too vital to be allowed to disintegrate. The printed word has played a vital part in the development of small business. It has given small concerns the opportunity of growing. It has created countless opportunities for individuals in every line of endeavor. It has helped to bring the automobile and countless household facilities to millions of homes.

And it can do these things again. If printing is permitted to keep itself alive through sharing in the war effort, it will be ready for the day toward which some Government agencies are already looking—the period of reconstruction. All America then will be intent on restoring normal conditions. Manufacturers will be striving to rebuild shattered distribution systems and to make their products available to American homes once more. And printing will be ready to do its full share in that gigantic task, if now the obstacles are removed which prevent it from taking a full and vital share in the war effort.

The CHAIRMAN. Well, now, Mr. Winter, in behalf of your association, what effort was made by your association to get some of this printing that is being done by the Government, if any?

Mr. WINTER. Mr. Chairman, I might explain this distress committee.

About four of the larger printers in Detroit pooled some money in order that a committee could spend some time in Washington in behalf of the industry. It was an unselfish thing on our part, realizing, of course, that the printing industry was in this dire need. In the last 5 or 6 weeks, this committee made five trips to Washington. We contacted the Public Printer, we contacted Congressmen, and we contacted everybody to whom we might look for help. We were very cordially received by Mr. Giegengack and his associates—there were six or seven at that meeting. We left with them our analysis of our distressed situation and the serious need for help from the Government Printing Office, but after a 2-hour conference with them, we were told that little could be done inasmuch as the Government Printing Office has no authority to negotiate contracts, but must invite competitive bids.

The CHAIRMAN. May I interrupt you there? Who informed you?

Mr. WINTER. Mr. Giegengack.

We inquired whether a congressional resolution would permit him to negotiate contracts, and were informed that such a request had been made, but up to that time had not been granted.

However, on January 14, the Federal Register, January 16, Executive order extension of provisions of the Executive Order No. 9001 of the 27th of December:

(Whereupon the Federal Register was read by Mr. Winter.)

Mr. WINTER. So, there is an Executive order there signed on January 14, which gives the Public Printer the right to negotiate contracts.

The CHAIRMAN. Well, now, you stated in your statement here that the Army set up 36 printing plants in its various Army units scattered

throughout the country. Of course, that wouldn't come under the supervision of the head printer down there; that would be solely under the jurisdiction of the Army authorities.

But, did you ever present that to the authorities in the War Department?

Mr. WINTER. No; we did not. We did not.

The CHAIRMAN. Well, we intend to do that.

Mr. WINTER. Mr. Chairman, I can't vouch for this, as I am merely repeating what I have heard. For instance, in Detroit some of the factories that require instruction books or books of information on certain war materials are restricted to a certain method by certain Army specifications. I refer to Varitype, which is a form of type-writer type where the preparatory work is done in Detroit and then sent to Army arsenals for printing. When finished, the books are reshipped to Detroit for distribution. Later these forms or plates are delivered to the Government Printing Office for safekeeping in case a reprint is required.

The CHAIRMAN. Do you know whether or not there is an established printing plant set up in Camp Custer?

Mr. WINTER. No; I do not, sir.

The CHAIRMAN. Mr. Halleck.

Mr. HALLECK. I want to commend you for your statement. I think it has been splendid, and I think it points to some information that the Congress and the country ought to have, and I hope this will be the medium through which that information can be made known.

Mr. WINTER. Thank you very much.

Mr. HALLECK. It runs in my mind that we saw something in the paper about the Government Printing Office doing a tremendously big job of printing the sugar-rationing cards?

Mr. WINTER. Yes, sir.

Mr. HALLECK. Is that where they are being printed?

Mr. WINTER. No; they are not, Mr. Halleck.

Mr. HALLECK. Just as a specific illustration, where are those cards printed?

Mr. WINTER. Well, now, there are three plants in Detroit that are producing part of them.

Mr. HALLECK. There is some work of that sort being done throughout the industry?

Mr. WINTER. That is right. That was a rather complicated job, and we knew about it in Washington 4 weeks ago this coming Friday. We tried to see Mr. Henderson, but unfortunately could not see him. We then talked to the Public Printer. That was on Saturday prior to our leaving, and he was rather—well, he didn't seem to have much of the details, yet we knew it was rather a complicated and rushed job.

It took almost 3 weeks from the planning and securing of bids to the awarding of contracts.

We advised Mr. Giegengack that we could produce the entire job of some 200,000,000 copies by pooling the resources here in Detroit in a matter of 3 weeks' time—and that is not an exaggeration.

In other words, we could have employed enough idle machinery in Detroit, had we been given a contract, a negotiated contract, and it isn't a difficult thing to negotiate printing contracts.

Mr. HALLECK. Well, they are negotiating a lot of others, are they not?

Mr. WINTER. Yes.

Mr. HALLECK. Let me ask you, are any of these sugar-rationing cards being printed by the Government?

Mr. WINTER. I don't know other than I understand a test run, I think.

Mr. HALLECK. Let me understand you now. Is it your contention that the Government in its printing offices is doing printing work that could be done by private industry throughout the country?

Mr. WINTER. Absolutely.

Mr. HALLECK. Do you have any information as to the extent to which the Government printing establishment has been expanded other than that you have given? Do you know anything about the increase in the number of employees in Washington in the Government Printing Office?

Mr. WINTER. No; I can't tell you that.

Mr. HALLECK. Of course, just offhand, it would seem to me to be something of an outrage if the Government printing operations were stepped up to add to the congestion that is already prevalent in Washington, which you have undoubtedly observed.

Mr. WINTER. Yes, indeed.

Mr. HALLECK. If it involves the sort of printing that could be done by private industry throughout the country.

Now, you referred to some new plants being set up. Do you know definitely whether or not they have required the construction of new machinery?

Mr. WINTER. Well—

Mr. HALLECK. I thought you made some reference to that.

Mr. WINTER. Yes; my dates will not be accurate, but 4 or 5 weeks ago we had a meeting with Mr. Sidney Hillman, and while I have forgotten just where I read that the airfield in Dayton had requested new printing machinery to cost about \$300,000, in telling Mr. Hillman our distress story we mentioned that fact to him, and he turned to Mr. Brandwin, his legal adviser, and stated, "Look into that. This should be stopped immediately."

Mr. HALLECK. Well, it would seem to me that the use of manufacturing materials, of the steel and other critical materials that are necessary to be used, could well be avoided if it is the sort of work that can well and properly be done in the already existing facilities throughout the country, and I am hoping that if that condition is found definitely to exist, that we can do something to stop it.

Mr. WINTER. Yes, sir.

Mr. HALLECK. I think that is all.

Mr. PLOESER. Mr. Winter, you said some of the sugar-rationing cards are being printed here in Detroit?

Mr. WINTER. That is right.

Mr. PLOESER. Are you printing any cards, or is it the instruction sheets?

Mr. WINTER. The sheets, the numbered sheets, with the little coupons.

Mr. PLOESER. Where are all the cards being printed?

Mr. WINTER. I don't know, sir.

Mr. PLOESER. Can you give us any idea of the comparative costs; what would be the average?

Mr. WINTER. You mean the prices; what a thing of that kind costs?

Mr. PLOESER. Yes; how much cheaper could the Government Printing Office do the thing than could private printers?

Mr. WINTER. Of course, it would all depend on conditions. If my plant were running two shifts a day, and I think I operate an efficient plant, I don't believe the Government Printing Office can produce it cheaper than I can, and I question whether they can produce it as cheap, but, without facts and figures, and with the peaks and valleys in our business, while the Government business going at an even keel, you can readily see their overhead is absorbed, where we are not in that fortunate position.

Mr. Chairman, if I may just digress from this for a minute.

The CHAIRMAN. May I ask a question?

Mr. WINTER. Yes, indeed.

The CHAIRMAN. I notice you state here in your statement that the only market that remains for your industry is the Government itself.

Well, now, if your association here and other associations throughout the country that are practically in the same difficult situation that you find yourself in, if the nonessential printing that is now being conducted by the Government based upon testimony that has been presented to us, that wouldn't be enough to keep the printers of America going?

Mr. WINTER. No.

The CHAIRMAN. Now, in your plants here, you could not readily convert them into various units where you could get some of this war production work, could you?

Mr. WINTER. We would be very anxious and very willing to do it. Just how much a printing plant can be converted to something else I don't know, but we have some real assets, such as skilled employees and buildings, which should not be allowed to go to waste.

The CHAIRMAN. Well, now, you were in the printing business in World War No. 1, were you not?

Mr. WINTER. Yes, sir.

The CHAIRMAN. Was there reconversion of those plants at that time for getting the war-production work in 1917 and 1918?

Mr. WINTER. We were given contracts for the very things that we are asking for now, and that is Government printing. I have here some books that we produced during the last war. They are instruction books, handbooks.

The CHAIRMAN. I see.

Mr. WINTER. After our facilities were investigated and contracts were awarded to us, technical writers worked in our plant; photographs were taken; the necessary retouching was done; engravings were made; type was set; books were printed, bound, and shipped as required. The books were produced in their entirety all under one roof with proper police protection. There wasn't this laborious long-drawn-out procedure of getting 100 bids or more, and then the fellow that made the biggest mistake got the business. As a result, most of the printing plants in Detroit were kept busy during the worst of the dislocation in Detroit.

The CHAIRMAN. In other words, you did not encounter the situation you are encountering now?

Mr. WINTER. No. This is the type of work that the Army now specifies must be set on a Varitype machine and, when completed, shipped to certain arsenals for printing. If the transportation facilities are overcrowded, as we understand them to be, is it not perfectly ridiculous to use the railroads and trucks so needlessly when this work could all be done in Detroit?

Mr. PLOESER. In other words, the Army asks you to ship the paper to them, and they print the material, and make a redistribution of it?

Mr. WINTER. Yes.

Mr. PLOESER. Whereas, the entire process could be done in one locality and only ship some of the paper?

Mr. WINTER. Yes, sir.

The CHAIRMAN. Does that conclude your statement?

Mr. WINTER. Yes; it does.

The CHAIRMAN. We want to thank you very much, and I acquiesce in the statement of Mr. Halleck when he commented on that statement. It is very helpful to this committee in trying to help you.

Mr. WINTER. I want to say right now that we are indeed grateful to you gentlemen for coming to Detroit, realizing how busy you are in Washington. We have seen lights in your offices at 12 o'clock at night as well as 8 o'clock in the morning, which indicates the many extra hours you spend there in these strenuous times.

The CHAIRMAN. Thank you, sir.

Mr. Fred Bornman.

STATEMENT OF FRED BORNMAN, VICE PRESIDENT, JOHN BORNMAN & SON, PRINTERS AND LITHOGRAPHERS AND BINDERS OF DETROIT

The CHAIRMAN. You may sit down over there, Mr. Bornman, and state your name and your affiliation.

Mr. BORNMAN. My name is Fred Bornman, vice president of John Bornman & Son, printers and lithographers and binders of Detroit.

The CHAIRMAN. You may proceed, Mr. Bornman.

Mr. BORNMAN. Our business is printing and lithographing, of which approximately 80 percent or a large percentage is made up of advertising work in Detroit for the automobile companies.

During 1941, in the month of October, we saw a decrease in our business to practically nothing.

Since the production of the new car material which started in the summer, we have had practically no orders for advertising printing from the automobile companies. That is since about the middle of October.

The CHAIRMAN. Well, of course, that was caused by the complete change-over into war production?

Mr. BORNMAN. That is entirely responsible, or caused by the dislocation of the automobile production and the discontinuance of it as of January.

The CHAIRMAN. What percentage of your work do you rely upon from the automobile industry?

Mr. BORNMAN. Better than 80 percent.

The CHAIRMAN. You may proceed.

Mr. BORNMAN. We normally employ approximately 100 to 120 employees in the various departments of our plant, and in addition to that our outside purchases of stock, typesetting, electrotyping, plate work of various kinds, and the various supplies that we need, and so forth, keep an untold number of men employed. At present we are trying to get some Government business from various sources, and have succeeded in getting a little business from the Government on a competitive basis.

Mr. PLOESER. What percentage of capacity is your printing operations now?

Mr. BORNMAN. Since the period of, say, the 1st of December, we have operated at about, I would say, 15 to 20 percent of capacity.

Mr. PLOESER. How many employees?

Mr. BORNMAN. Well, that varies, depending on the work. The jobs we do get are jobs which require quite a large number of men for a short period.

Mr. PLOESER. I am talking about the average employment.

Mr. BORNMAN. The average employment? Oh, it would run probably, 30 to 40 percent of normal. That is due to the fact that we have key men in our work, supervisors, and so forth, which make up a nucleus of—

Mr. PLOESER. Do you mind an interruption for a moment? Is Mr. Winter still in the room?

Mr. WINTER. Yes.

Mr. PLOESER. Would you mind telling us how many employees you normally have in your plant under normal conditions?

Mr. WINTER. We have normally in our plant anywheres from 200 to 250 people. Our normal employment is around 200, and the peak, that is about five months out of the year, we have to increase. That is due to the great volume of automobile work.

Mr. PLOESER. Then, will you tell me also what percentage of capacity you are operating on now?

Mr. WINTER. Well, we are doing very little right now. I don't think we have—we have one job for the Government, some maps.

Mr. PLOESER. Are you doing 5 percent of capacity?

Mr. WINTER. Yes, we are doing 5 percent of our capacity.

Mr. PLOESER. How many average employees do you have now?

Mr. WINTER. Our employees have been reduced from the first of the year from 225 to 35 today.

Mr. PLOESER. Forgive me. I wanted to get that into the record along with your statement.

Mr. BORNMAN. I believe, Mr. Chairman, that states our position as far as our present conditions are concerned.

The CHAIRMAN. Mr. Bornman, the automobile industry, when it was in operation, they let all their printing out to private concerns, did they not?

Mr. BORNMAN. Practically all.

The CHAIRMAN. They didn't control any of this printing themselves in their own corporations?

Mr. BORNMAN. There is a little printing being done by General Motors in their photographic unit, and today they are producing quite a little there in comparison to the amount they are buying outside.

The CHAIRMAN. Well, thank you very much, Mr. Bornman.
Mr. John E. Coulter.

**STATEMENT OF JOHN E. COULTER, PRESIDENT, AND TREASURER,
OF SATURDAY NIGHT PRESS, INC.**

The CHAIRMAN. You may state your name and your business affiliation; also your address.

Mr. COULTER. My name is John E. Coulter, president and treasurer of Saturday Night Press, Inc., Detroit.

Mr. Chairman, and gentlemen, my statement will be very brief, more or less in repetition of that which Mr. Winter and Mr. Bornman have given.

I have made just a little statement here. Saturday Night Press, Inc., was established in 1910. For some thirty years it has been one of the larger Detroit printing firms, specializing in advertising printing, color work, and publication printing.

Its business, like that of its Detroit competitors, has developed with the automotive industry, catering principally to quality and service requirements of that industry, and growing in equipment and volume of business as the automotive industry similarly developed.

The conversion of automobile manufacturing into war industry with resultant curtailed advertising and sales promotion printing has already resulted in a decrease of 60 percent in the average monthly volume of business and employment by Saturday Night Press over one year ago.

It is now definitely known to us that this percentage will be nearer 80 percent with the beginning of March.

Our part of the distressed printing industry of Detroit, and we would point out that it is the advertising printers principally who are affected, may be gaged by these figures:

Average number of employees for the last 10 years, 100. We have had perhaps 150 at busy times, but 100 would be an average.

Present number of employees regularly employed today, 25.

Our average sales in the last 10 years, \$340,000 annually. The sales for the year beginning today, it is impossible to estimate; perhaps \$75,000 to \$100,000.

We feel that the Government can help Detroit printers, and their employees. We appeal to you for that help, so that our business may be saved, our employees be given employment, and be enabled thereby to do their part in the war effort.

The CHAIRMAN. Mr. Coulter, in your annual amount of business done during normal times, \$340,000, what percentage of that do you have to rely upon directly from the automotive industry?

Mr. COULTER. About 80 percent, Mr. Chairman.

The CHAIRMAN. About 80 percent?

Mr. COULTER. Yes, sir.

The CHAIRMAN. Mr. Ploeser.

Mr. PLOESER. Well, I do not know whether you can answer this question or not, but if you can, or anyone else in the room can, I would appreciate it, and that is, How much of this automobile industry advertising printing, roughly, has been going outside of the city of Detroit?

Mr. COULTER. Well, some has gone outside. I wouldn't be able to answer the question in percentage. There is a certain amount of it, particularly with the kind of jobs that are more suited to some equipment, which we in Detroit do not have, has regularly gone out of Detroit during the past 5 or 10 years. That is true.

Mr. PLOESER. Does anyone in the room have any idea what it would be in the way of volume of total business?

Mr. COULTER. Total volume?

Mr. PLOESER. The reason for the question is simply this, that while your industry here in Detroit has undoubtedly been made acute by the conversion of the automobile industry to wartime production, it would seem to me that probably this has reached out into some other communities, and hurt them pretty badly, but undoubtedly not on the same scale, but to some degree.

Mr. COULTER. I think I can say, however, that those printing institutions located in other cities who have enjoyed some business from the Detroit automobile industry are not relying on it in the sense that we are here. They have patronage and clients in other lines of business, and to them the Detroit business does not occupy the same importance.

Mr. PLOESER. This is the prime run in your industry?

Mr. COULTER. That is right.

Mr. WINTER. Mr. Chairman, may I add to that, please?

The CHAIRMAN. Yes; you can.

Mr. WINTER. I might say that up to the time of the depression we in Detroit were never bothered by any outside competition in automobile work; first, because it is a highly specialized work; and, secondly, because the time element involved was of prime importance. In other words, most companies bring out their models, new models at the same time, and beginning with July to about December, every plant in Detroit is working at its top capacity.

However, during the depression some of the out-of-town printers came to Detroit and solicited the business. I speak particularly of Chicago, because most of the printers of Chicago do a great deal of mail-order printing, and about the time that the automobile industry starts with their large programs, they are down as far as mail-order business is concerned, and there was an opportunity to come in here and take some of this business.

I don't believe that the total business taken out of Detroit would be more than 20 percent at the outside, and I think it would be nearer 15 percent of the total, and invariably the business goes out where it is of a low price or the local printers cannot take care of the business. That is offered to them during that short time of 3 or 4 months.

I think that is probably a true statement of conditions.

The CHAIRMAN. Thank you, sir.

Mr. COULTER. That is all I have.

The CHAIRMAN. Thank you very much, Mr. Coulter.

Mr. Leonard P. Kolb.

STATEMENT OF LEONARD P. KOLB, PRESIDENT, KOLB PRINTING CO.

The CHAIRMAN. You may state your name and your business affiliations.

Mr. KOLB. My name is Leonard P. Kolb; I am president of the Kolb Printing Co., Detroit; we have run a highly specialized printing plant, devoted to big production for automobile advertising literature. We did not compete in a great many of the other fields of the printing industry, and in December, this year, we had more than \$350,000 worth of our business canceled. We normally do a business of about \$600,000 a year, and don't know of any place to seek business to replace that which has been canceled.

Mr. PLOESER. How many men do you normally employ?

Mr. KOLB. I would have to quote that as being directly and indirectly about 100 to 125 people. We don't do all the work in our own plant. We sublet binding and typography and things of that sort.

Mr. PLOESER. How many average?

Mr. KOLB. In my plant?

Mr. PLOESER. Now.

Mr. KOLB. About 4 average.

Mr. PLOESER. What does your volume of sales now amount to?

Mr. KOLB. None since December 17, 1941. This last year was over \$700,000.

Mr. PLOESER. That is your average?

Mr. KOLB. Normally between five and six hundred thousand dollars.

Mr. PLOESER. What would it be now?

Mr. KOLB. We closed our plant entirely in December because of lack of business, and it costs us about \$18,000 a year to keep our plant closed, rent, taxes, and other things.

The CHAIRMAN. Mr. Kolb, may I ask you a question just for our information here. An engraver or a printer in normal times is employed 12 months in the year?

Mr. KOLB. No; but the way we operate it, I guaranteed my employees a full year's pay in 12 months, provided they would work the overtime for which we paid time and a half and double time during the busy season. I have run as much as 13 weeks without shutting down a day. Those employees would be paid time and a half for their overtime for the first 3 hours and double time Saturdays and Sundays and holidays, and they all made a year's pay in a year.

Mr. PLOESER. I see.

The CHAIRMAN. Are those agreements by contract?

Mr. KOLB. They are verbal agreements with the help, and we have lived up to them, and we have seen that the work was properly distributed so that there wasn't any obligation on our part to make good on that promise.

Mr. PLOESER. In other words, you guarantee them a year's wages?

Mr. KOLB. Yes.

Mr. PLOESER. Do you pay them in installments or what?

Mr. KOLB. No; if they were short of money, we were always willing to help them. That is for things of necessity; not buying automobiles or a radio, but when they had necessities we would advance them the money.

Mr. PLOESER. I think that is most commendable.

Mr. KOLB. I beg your pardon?

Mr. PLOESER. I say, I think that is most commendable.

Mr. KOLB. Thank you.

Mr. HALLECK. What has happened to your employees?

Mr. KOLB. They are looking for work.

Mr. HALLECK. They are all looking for work?

Mr. KOLB. Yes.

Mr. HALLECK. I wonder if there are any representatives of employee groups here today who have any information as to their circumstances.

Mr. WINTER. They will be here after lunch.

The CHAIRMAN. Mr. Fred Forbes.

STATEMENT OF FRED FORBES, SECRETARY, THE MULFORD CO.

The CHAIRMAN. You may state your name and business affiliation.

Mr. FORBES. Fred Forbes, Secretary of the Mulford Co.

I have a brief statement that I made up this morning.

The CHAIRMAN. All right.

Mr. FORBES. Comparison of our January and February 1941, and January and February 1942 sales, to companies now on defense work, disclose the following:

January and February 1941.....	\$43, 140. 83
January and February 1942.....	6, 020. 18

Decreased sales due to defense work..... 37, 120. 65

The above is sales of advertising printing and does not include sales to concerns not on defense work.

Mr. PLOESER. What is the volume of your business?

Mr. FORBES. Well, I do about \$200,000 a year.

Mr. PLOESER. Total?

Mr. FORBES. Total; yes.

Mr. PLOESER. And you are talking now about \$40,000 a month?

Mr. FORBES. Yes; in the months of January and February, 1941.

Mr. PLOESER. That is seasonal work?

Mr. FORBES. In the summer months, June, July and August, we do not do nearly as much business as in other months of the year.

Mr. PLOESER. How many men do you normally employ?

Mr. FORBES. We normally employ 30 to 45 men, but at the present time only 20. We do about—I would say—80 percent of our business is in automobile and the electric-refrigerator business.

The CHAIRMAN. Thank you, Mr. Forbes.

Mr. Winter, I understand that you have some further evidence that you would like to have inserted in the record.

Mr. WINTER. If I may at this time.

This is a little document entitled "Economic Pearl Harbor" named so aptly, published by one of the newspaper writers in Detroit, and we accepted it.

The CHAIRMAN. How big is that document?

Mr. WINTER. I just wanted to refer to page 3, which will give you an idea of the entire distress industry in Detroit. I think you might be interested in these figures in the printing and lithographing, the total of 2,180 employees, with a normal volume per year of \$12,000,000; the anticipated volume for 1942 is \$2,400,000.

(Whereupon, Mr. Winter read p. 3 of the book referred to.)

Now, on top of that there are some 400 commercial artists in Detroit and it was impossible to get the volume.

The CHAIRMAN. If you can get that information, you may send it down to Washington and we will have that inserted in the record.

Mr. WINTER. Fine. Thank you very much. I will leave that book with you.

The CHAIRMAN. All right. Mr. William H. Wolfe. Not here, I guess. Mr. Elmer F. Wagner.

STATEMENT OF ELMER F. WAGNER, PRESIDENT, FEDERAL LITHOGRAPH CO.

The CHAIRMAN. Mr. Wagner, you may state your name and business affiliations.

Mr. WAGNER. Elmer F. Wagner, president, Federal Lithograph Co.

We operate wholly a lithograph plant, and have six offset presses with photographic equipment capable of doing a good bit of work that the Government requires at the present time. Our business in the past was approximately 70 percent automobile work, such as advertising literature, direct mail pieces, and prior to the stoppage of automobile production, we had under contract six publications pertaining to distributor and dealer helps. Naturally all this was taken away from us and we are left in a rather tragic position.

In other words, it is very difficult for us to go out into other fields and dig up work to keep our men working, and of course we have to have work to keep our skilled men in the lithographic industry.

The CHAIRMAN. Well, now, what part could the Government play in your particular industry?

Mr. WAGNER. Well, at the present time the Government is getting out a great number of instruction books and those books, as Mr. Winter has stated, are made up with varitype along with photographs. For illustration, we might take the Chrysler Plant, the tank arsenal. They prepare all the data and send it to the Army which I believe is in New Jersey. They have lithographic equipment, and I understand they print enough copies for the various ordnance departments, and then—

Mr. PLOESER. The Army has the lithographic equipment?

Mr. WAGNER. That is right.

Mr. PLOESER. They do the lithographing?

Mr. WAGNER. That is right. They print enough copies for the various ordnance departments, and after they get through running the desired number of copies at the Arsenal Plant, all of the necessary

material is forwarded to the Government Printing Office for future runs.

Of course, I don't know. This is only my own idea, but it would seem to me when they are printing up these instruction books, that they should have some idea as to the number of copies required for that particular job.

Now, if this is the case, it seems there would be an additional expense in sending this material to one plant for a few copies to be printed and then forwarded to the Government Printing Office for additional copies. They may print them in their plant or request bids for printing the additional copies. I am not familiar with that.

The CHAIRMAN. This plant you mentioned up in New Jersey; is that a Government plant?

Mr. WAGNER. That plant in New Jersey is a Government plant. It is an Army plant. I think it is in charge of Colonel Meek.

Mr. PLOESER. Does the Navy do any such work?

Mr. WAGNER. I am not familiar with that, but I understand that the Air Corps and the Navy are doing the same thing, and I know that the Air Corps is receiving copies; but whether they farm them out or print them themselves, I don't know. I haven't been able to find out.

Mr. HALLECK. If I might make a suggestion, Mr. Chairman. It is a sad fact, but true, that sometimes we don't get much consideration around different places until we make a little noise and the people hear that noise. If you and the other people who are here have some specific illustrations or examples of printing work and lithographing work that could be done in your plants that is now being done in some Government plant, particularly where they involve the purchase of new machinery or involve the adding on of a lot of additional personnel in the Government operation, I think it would be effective in presenting your case. You have given us this one illustration of the New Jersey situation. Of course, what the answer on the other side to that might be, I don't know, but if we get the information, why, then, we are in shape to make some inquiry as to the answer, if there is any.

The CHAIRMAN. Well, Mr. Wagner, I may ask a question there. These instruction books which you have mentioned, they are not secret military matter, are they?

Mr. WAGNER. I don't believe so. However, I have had some experience along that line. For instance, I might state here that we produced a job for one of the plants here in town which if there ever was a secret job, I would think it was, because it was a diagram of the entire motor system—the oiling and the construction of a motor system. It was done in color.

The CHAIRMAN. Of course, we can all understand that in war times a lot of that information cannot be given out to private printers.

Mr. WAGNER. That is right, but the instruction books that I am referring to are similar to the type of instruction book the automobile industry has been getting out for years, and they are made up

in exactly the same way as these instruction books are made up for the Government at the present time.

Mr. HALLECK. Those are the books that are distributed to the men?

Mr. WAGNER. I understand they are distributed to the men who handle the machine. In other words, the motor and various parts.

Now, there is a considerable amount of that work being done and it is done on the offset press, and is the type of work that has been taken away from us.

Mr. PLOESER. Well, even certain secretive work could be done in your plants with the proper supervision by the Army and Navy.

Mr. WAGNER. Well, as I understand it, the sugar-rationing cards are being printed at the present time in various parts of the country, and if anything has got to be made in a more careful manner than those, I don't know what it would be.

The CHAIRMAN. That would be just the distribution.

Mr. WAGNER. Absolutely, but after all is said and done, I might add that at the present time we are fortunate in having a rather good sized contract for the Army War College, and I will say that we are printing maps now. I think that is very important, and if we are able to do that, I don't know why we can't continue on.

Mr. HALLECK. You have been getting some Government work?

Mr. WAGNER. That is right.

Mr. HALLECK. But you think you ought to get some more; that you are competent to do so?

Mr. WAGNER. Under the conditions it doesn't look very healthy the way we have been getting it. It doesn't look to me like we will be able to keep our organization going.

At the present time I haven't any complaint to offer but I know that it isn't going to last. It is good for another week and after that it looks like we will have to close up.

The CHAIRMAN. All right, thank you.

Mr. PLOESER. I want to get the number of your average employees?

Mr. WAGNER. Well, we employ at our peak about 75 employees, and our volume of business in the past 5 or 6 years averaged about \$270,000.

Mr. PLOESER. And can you give me the figures as of to-day; what is your estimate?

Mr. WAGNER. As of today, of the first, we will say since December, we had a total business of about \$16,000, for December, January and February.

Mr. PLOESER. How many employees?

Mr. WAGNER. At that time we averaged around 25 employees and they weren't kept busy. There are some key men you have to keep, if you want to keep going. You can't let your key men get away from you.

The CHAIRMAN. Thank you, Mr. Wagner.

Mr. Frank W. Barnard.

STATEMENT OF FRANK W. BARNARD, SALES MANAGER, CALVERT LITHOGRAPHING CO.

The CHAIRMAN. You may state your name and your business affiliations.

Mr. BARNARD. My name is Frank W. Barnard, sales manager of the Calvert Lithographing Co.

The CHAIRMAN. Give your address, too.

Mr. BARNARD. 2100 Grand River Avenue. Our business and our equipment, rather, is similar to Mr. Wagner's. It is devoted exclusively to lithographing. The volume of advertising and in that volume 95 percent has been automotive. In 1940 it was \$430,000. In 1941 it dropped to \$225,000. For 1942 we wouldn't even make a guess.

We have one-color, two-color, and four-color presses. We have a total of 27 cylinders. We were fortunate in getting a map order to run some maps. In fact, we have two orders for maps. We will be finished with those this week, and we are going after the War College to see if we can get another one, if they need more maps.

Mr. PLOESER. Was that a bid job?

Mr. BARNARD. That was a bid job. Then they had to have it a little faster, and they called us up, and we are getting it out a little faster; and we are going to talk to them on the basis of service and see if they give us another order.

The CHAIRMAN. Did you encounter much difficulty in getting the first order?

Mr. BARNARD. I will explain this, that all the lithographers in Detroit were given a chance to bid on one order, the first one went to John Bornman and the next bid came along and the rest were allowed to bid and Bornman wasn't allowed to bid. I believe Federal got that order. The next one was three orders and placed with three lithographers, so that the work was divided that way. In other words, all five houses participated.

We employ regularly 250 employees. We have now around 200.

I might say in connection with the bids from the printing department that we have had the opportunity of quoting but we have not been successful. The closest we came was on the war saving books. I think they had about 40 bids that were placed. They placed the business in Chicago. That is my understanding, and they placed the business in four different houses, three of them are lower than ours and one bid was a little higher than ours, but they may have done that because all the paper could be shipped to Chicago. That is the only bid that I know of in connection with the printing office that we have been close to or have had a chance.

Mr. PLOESER. I meant to ask you this, Mr. Wagner. It doesn't matter who answers it. About the doing of secret work for the Government, isn't it true that the average printing establishment knows their employees or the bulk of them for many years standing. Either the Army or the Navy probably would be as well off, if not better off, working with supervision over that type of employee than they would with many of the new employees they are taking on themselves to do this very work?

Mr. BARNARD. I don't believe they have any fear of information getting out of the plant. If properly supervised I know we wouldn't hesitate to tell the Government we would take care of that situation.

Mr. PLOESER. You feel, too, that that cooperation with the Government could bring about a secret situation?

Mr. BARNARD. Yes, sir.

Mr. PLOESER. So that it would be safe?

Mr. BARNARD. That is right.

Mr. KOLB. The automobile industry, when they get out advertising literature, are very secretive about it. They don't care for their competitors to get knowledge of what they are doing. The consequence is that our help have been exceptionally well trained and are strictly honest about carrying anything from the plant, and I think most jobs are never carried from the plants or any books or any such information outside of that. I don't know of any employees that carry anything out of any shop in Detroit.

The CHAIRMAN. Thank you, sir.

Mr. Jack Moore.

STATEMENT OF JACK MOORE, VICE-PRESIDENT, NATIONAL LITHOGRAPH CO.

The CHAIRMAN. You may state your name, your address, you business affiliations.

Mr. MOORE. My name is Jack Moore, vice president of the National Lithograph Co., 1010 Beaubien.

Our equipment has been used, I would say, 70 percent or 80 percent for the automobile business, and as most of them have stated, it has been peaks and valleys. We employ 60 to 65 employees. Our volume would run the last 3 years between five hundred and fifty and six hundred thousand dollars. At present we are operating around 40 percent; or in other words, our billing on some hold-over orders that we have had will peter out or rather run out, which will leave just about—or that employees that we keep on a weekly basis.

Mr. PLOESER. Have you made any effort to get any of the Government work?

Mr. MOORE. We have with the others on the map business. We were awarded a small order, which in the press room took about 3 days for two presses to produce. We have listed with the Public Printer our equipment. We received an inquiry last week. It seemed very funny. They asked for a bid on 800,000 circulars to a lithograph plant and stated that it should be produced by the letter-press process.

Now, I mean that is the change from a lithograph. Still the specifications seemed to be messed up and that was the first inquiry we have had in the year from them.

The CHAIRMAN. All right. Thank you.

Mr. W. F. Gruschow.

STATEMENT OF ALLEN GRUSCHOW, CADILLAC PRINTING CO.

The CHAIRMAN. You may state your name and your business affiliations.

Mr. GRUSCHOW. I am Allen Gruschow of the Cadillac Printing Co. 5850 Second.

We have been in business for over 30 years, catering largely to the automobile industry. In the last few years, we have been doing a volume of around \$400,000. At the present time we are doing about one-fourth of that or less. We normally employ from 75 to 90 employees. Today there are 24 on the pay roll. During the last war we did a considerable volume of Government work in the way of instruction books.

Mr. PLOESER. Have you any Government business now?

Mr. GRUSCHOW. No. We have been to Washington on two occasions and we have quoted on several jobs, but we are not able to get them.

Mr. HALLECK. Do you know of any Government work that is being done in Government plants that you could do if given to you?

Mr. GRUSCHOW. Why, yes. We understood that several months ago the Government was contemplating buying some equipment similar to ours. They investigated and wanted to know if there was any available from the manufacturer.

Mr. HALLECK. Do you know whether or not they did finally buy it?

Mr. GRUSCHOW. No; the equipment wasn't purchased. There wasn't any available there. They are now 100 percent war work. There certainly must be a volume of business there. We figured on two jobs recently.

The CHAIRMAN. All right, thank you sir.

Mr. James Noel.

STATEMENT OF JAMES NOEL, GENERAL MANAGER, CERRE, INC.

Mr. NOEL. James B. Noel, general manager of Cerre, Inc., 613 Abbott Street.

Mr. Chairman, we operate a rotogravure plant and are the only plant of this kind in the city of Detroit.

The bulk of our work consists of automobile advertising, also newspaper printing. We print the Sunday rotogravure section for two of our local newspapers, but the bulk of our work has consisted of about 60 percent of automobile advertising, which has been curtailed entirely. We had jobs scheduled for delivery in December and January amounting to about \$25,000 to \$30,000 which have been canceled.

Since the first of the year we have laid off almost 50 percent of our employees. For the last four or five years we have been running almost at full production, employing about 200 men. Now, we are down to about 100. We made quite a survey to get more business, but there was nothing in our line of printing to be had at the present time.

Last fall we were called upon to bid on printing targets for the arsenal in Chicago. We turned in our bid. Unfortunately our price was too high.

We have one press which is equipped with a flat delivery, where we could print target paper, and about a month ago we were called to turn in a bid again, and we were told that we couldn't get the paper supplied in rolls, so we did not turn in our bid.

The CHAIRMAN. Who told you that?

Mr. NOEL. We couldn't get paper in rolls.

Mr. PLOESER. Why?

Mr. NOEL. Because they were furnishing paper sheeted, which fitted the present method of printing. We have to print from rolls.

The CHAIRMAN. Is that the paper suppliers that told you that?

Mr. NOEL. No; it was the association here in town that asked us to turn in our bids.

The CHAIRMAN. Thank you, sir.

Mr. Walter F. Laib. I guess he is not here.

Mr. William Marr.

STATEMENT OF WILLIAM MARR, GRAPHIC ARTS PROCESS CORPORATION

The CHAIRMAN. You may state your name and address.

Mr. MARR. My name is William Marr of the Graphic Arts Process Corporation. We are what is best described as in a slightly smaller medium than the others.

The CHAIRMAN. And also give the reporter your address, will you?

Mr. MARR. Pardon?

The CHAIRMAN. Your address.

Mr. MARR. Forty-one Burroughs. Our business is not large. We do quite an amount of platemaking and preparatory work that some lithographers have left with the trade houses. Our volume is not so large as some of the other lithographers.

I have figures to quote. Our business was formed in 1934, and our trade experience is not as long as some of the others. In 1935 through 1939 we employed 35 to 40 people. We have 12 at the present time.

The work which is coming into Detroit from the Government at the present time is of such a nature that we are not directly competitive in it. Our equipment is such that we have been building up and find ourselves in the position of lacking. That is highly specialized work that goes into automobile sales promotion. Our volume of business, and to quote the most recent figures, which would include January of this year and the 6 months preceding that, which takes in the high point of the automobile announcement period, show for August 1940 through January 1941, a total of \$107,000. January 1942, and the preceding 6 months which are the most potent as to actual figures, insofar as most of our volume was at that time, it was \$53,000, which is slightly less than half. That volume has been maintained at a higher ratio than the average, because we did make an intensive effort in the last 2 years to diversify our business.

That is all we have to say.

The CHAIRMAN. Thank you, indeed, sir.

Mr. MARR. You bet.

The CHAIRMAN. Mr. A. C. Douglas. He is not here.

Mr. Fred A. Prince.

STATEMENT OF FRED A. PRINCE, PRESIDENT, PRINCE & CO.

Mr. PRINCE. Mr. Chairman, my name is Fred A. Prince. I am president of Prince & Co., Inc. Our business is advertising and sales promotion, located at 3815 West Fort Street, Detroit. Our main activity is in the automotive field, serving such clients as the Good-year Tire & Rubber Co., Sinclair Refining Co., Nash-Kelvinator, and units of Chrysler and General Motors.

We create, design and write direct mail advertising, and administer its promotion and distribution through thousands of dealers for these and other leading merchandisers. This business is hard hit. There are no new automobiles or tires to sell and very few refrigerators, radios, washing machines, and the like. The dealers are in a serious predicament.

In 20 years of experience, we have never seen a situation so severely rigorous. Even at the height of the late depression there was nothing even remotely comparable to these times.

Normally at this time of the year, we would be employing 400 people, 75 percent of whom would be young women. Today we have 101, with every indication of harsher developments to come.

Mr. HALLECK. Do you have any suggestions as to what might be done to alleviate your situation? There has been talk about getting more of the Government work. That wouldn't help you much, would it?

Mr. PRINCE. We think it might and we have the modern plant, the experienced management and the trained help to do a good job. Many departments of the Government and of the war effort require constant contact by mail with different organizations and with the public. We have the graphotype machines for making address plates and high-speed addressing equipment; we have trained women for hand fill-in addressing, assembly, and every other detail of mail distribution. We have an established organization that has proved its accuracy in handling big jobs completely and at reasonable cost. For mailings, we would be an efficient agency for Government distribution.

In actual manufacture of war supplies, too, I think we might help. With hundreds of workers skilled in the use of their hands, with a modern plant, good labor relations and able management, we should be able to efficiently assemble and ship prefabricated parts, say fuses, shells, or civilian gas masks, for instance. There must be scores of other jobs which require very little machinery and lend themselves naturally to hand assembly.

Mr. HALLECK. I think those are suggestions that are worthwhile. In other words, there is not much we can do about the automobile business.

Mr. PRINCE. That is right.

Mr. HALLECK. It is just out for the duration, and the tire business looks pretty tough. But the matter of putting all of your plants, your management, and your space and your employees into war effort not only helps you, but it will help us win this war if we get everyone in on it. If we can possibly get them in, and that is what we are interested in, and I hope we can get as many suggestions as we can along that line.

Mr. PRINCE. We have 70,000 square feet of space. We have a well-lighted, well-arranged modern plant, the larger part of which could be quickly transformed for war assembly. We have employed as high as 600 young women. I don't know whether I can get them all back but I know I can get a good percentage of them in pretty fast time. As a matter of fact, I'm asking that you have our plant inspected, to see if it can't be converted for war use.

Mr. HALLECK. Do you have a contract distribution office here in Detroit?

Mr. PRINCE. That is right.

Mr. HALLECK. Yes.

Mr. PRINCE. It hasn't been helpful so far. They have our specifications, but we have had no inquiries. I haven't pressed them very hard. I will admit that.

Mr. HALLECK. You found them willing to cooperate?

Mr. PRINCE. Yes.

Mr. HALLECK. Are they staffed down there with enough people to do the work?

Mr. PRINCE. I think they are, as far as I know.

Mr. HALLECK. You think they are?

Mr. PRINCE. As far as I can tell; I wouldn't know that.

The CHAIRMAN. Thank you.

Mr. Walter Splitts.

Mr. BAUGH. I will take his place.

The CHAIRMAN. All right.

STATEMENT OF CLIFFORD BAUGH, SECRETARY AND TREASURER, PROCESS LITHOGRAPH CO.

Mr. BAUGH. Clifford Baugh, secretary and treasurer of the Process Lithograph Co., 2863 East Grand Boulevard.

We have been in business about 15 years at the same location. We ordinarily employ about 35 to 40 men. We now have 31. We do a volume of between \$225,000 and \$250,000 a year, but if we were to depend upon the business we are getting out of Detroit today, it would be less. However, if it hadn't been for the fact that we recently got some business from out of the city within the last 2 or 3 months, we wouldn't be running today.

Mr. PLOESER. What do you mean?

Mr. BAUGH. Business from private industries.

Mr. PLOESER. Out of Detroit?

Mr. BAUGH. Out of Detroit, that is right. We bid on three or four Government jobs; had the same experience the rest of the lithographers had, but we didn't get any work. We were close, but we missed the boat.

Mr. HALLECK. Let me ask you right there, has that bidding system forced some of your prices down below a fair price?

Mr. BAUGH. I believe so. I feel that way about it. We quoted on one or two jobs, and were high. After we had quoted on the first two jobs, we really made an effort to get some of that business and keep our organization together, and that meant that we quoted some very attractive prices from the buyer's standpoint. We still didn't get them, and we really had a fair price. As it was, perhaps we were just as well off not to get the business than to get it if it went at the prices it went at.

Mr. HALLECK. Of course, we do not want anybody to get rich out of this war effort, but at the same time certainly fair prices should be paid. It doesn't seem to me the fact there is a surplus of supply available should be used to drive the price down below a fair price.

Mr. BAUGH. It is practically all our own fault, because we all quoted in competition, and if one of our other Detroit lithographers quotes a better price and is a little hungrier for business, that is the price the job goes at, and that determines the level at which these jobs are placed. We pay the scale or better, and we have tried to keep our men employed, and during the quiet time in the summertime, we carry them, keep our organization together, and we have kept it together. We have men that have been with us 10 or 15 years.

Another point I wanted to put over is that we want to do something to help our own cause, not just lean on the Government. So we have gone out of the city and we have cut our expenses wherever we can, sales and other expenses, salaries, but it gets to the point where there is an irreducible overhead that we must meet or get out of business. We have gone out of the city to get business, but that is rather negligible.

Mr. HALLECK. I can understand here in Detroit where you have been principally depending on the automobile business and the automobile business is completely gone, that you are possibly harder hit than other places.

Mr. BAUGH. That is right.

Mr. HALLECK. But is it true that in other areas, like Chicago, Mr. Kelly's home town, that there is a slacking off in the business that the lithographers and printers would generally do?

Mr. BAUGH. That is true, but not nearly to the great extent that they are in Detroit. I used to live in Chicago, and I know. It is a more diversified town for the printing business than here in Detroit. We have relied about 85 percent on the automobile business, and that is gone now. So, you know our problem. We must find out if we can get Government business or business from out of town that will help, or otherwise throw men on the market for other kinds of work.

Mr. PLOESER. When you bid on a Government job, do you bid on supplying paper and everything else?

Mr. BAUGH. Yes, sir.

Mr. PLOESER. From what source of supply does the paper come?

Mr. BAUGH. My experience in buying paper in Detroit is that the paper houses are doing a pretty good job and we haven't had a serious problem in getting paper.

Mr. PLOESER. I was under the impression, and I have been so informed to the effect that the Government supplies the paper.

Mr. BAUGH. In some cases, I believe they have supplied the paper, and in some others they have not.

Mr. PLOESER. When they supply the paper, where does it come from?

Mr. BAUGH. I can't say. I am the financial and not the technical man.

Mr. PLOESER. Does anyone here know?

Mr. WAGNER. I think I can answer that question. There have been requests from the Government Printing Office, some of them that request you to bid supplying the paper; others that request you to quote paper supplied by the Government Printing Office.

Mr. PLOESER. In other words, the Philadelphia concern bidding against the Detroit concern has a freight differential immediately?

Mr. WAGNER. Yes; they can haul it by truck, thereby cutting it down. I venture to say they can cut it down 75 percent.

Mr. PLOESER. That is the freight item?

Mr. BAUGH. That is the freight item only.

Mr. PLOESER. And a concern in Washington doesn't have any freight.

Mr. WAGNER. If they had their own trucks, they could pick it up and haul it to their plant.

Mr. PLOESER. A concern in San Francisco would be in a hell of a fix?

Mr. WAGNER. That is right. These requests have varied.

Mr. PLOESER. Thank you.

The CHAIRMAN. Thank you, Mr. Wagner.

Mr. WAGNER. Yes, sir.

The CHAIRMAN. Thank you, Mr. Baugh.

Mr. BAUGH. Yes, sir.

Mr. MOORE. Mr. Chairman.

The CHAIRMAN. Yes, sir.

Mr. MOORE. May I supplement the information that has been given by some of the printers here this morning who have mentioned these instruction books?

The CHAIRMAN. Will you give your name for the record?

Mr. MOORE. Jack Moore.

The Government does not only buy instruction books, the Government is in the advertising business. It is in the advertising business the same as the automobile companies. In other words, the Treasury is advertising every day, defense bonds and stamps. They turn out, I don't know how many millions of pieces of literature in colors to sell defense bonds and stamps.

The CHAIRMAN. This is the printing office?

Mr. MOORE. That is printed by the Government Printing Office.

Mr. HALLECK. Could you fellows do that kind of work?

Mr. MOORE. We can; yes.

Mr. HALLECK. Maybe we can decentralize a little of that.

Mr. MOORE. They buy millions of posters to be sent around the country. The Army and Navy advertise recruiting with these colored posters outside and the Office of Facts and Figures and the Office of Emergency Management are getting out posters, "Don't give any information," and those incentive posters in colors which we see, and so forth, advertising which we can do here in Detroit.

Mr. HALLECK. Who is printing that stuff for the Office of Facts and Figures?

Mr. MOORE. It all goes through the Government Printing Office.

Mr. HALLECK. Do they actually print it?

Mr. MOORE. That is something I don't know. We assume they are printing a great share of it and what they can't produce is being let out in competitive bids, which are as we have demonstrated; they will ask 40 or 50 bidders, and the fellow that makes the biggest mistake gets the job.

Mr. HALLECK. Do any of you people know whether any of your employees have gone down to Washington and got a job in Washington?

Mr. WAINSCOTT. We had one employee.

Mr. WAGNER. We had a man who left our employ last Friday to go to Washington and I think it is in the Navy Department.

Mr. WAINSCOTT. We have an inquiry at the present time for one of our most skilled men at the present time that they are going to take away from us.

Mr. PLOESER. As a printer?

Mr. WAINSCOTT. Yes; that is right. He is applying in the Government Printing Department, and the Government has sent us a request to give them the full information needed, so that they may take him immediately. It looks like the inquiry from the Army Department.

Mr. GALE. One of our boys was asked to work for the Navy Department.

The CHAIRMAN. Will you state your name, please?

Mr. GALE. Gale, president of Gale, Inc.

We have one offset press which has been lying idle about 50 per cent of the time. Our pressman was getting \$1.25 an hour, and we had to lay him off, and he made an application for a job in one of the offices in the National Bank Building. I don't know the name of the office, but I do know it is a Government office. He went to work with them understanding he was to receive \$185 working on a multi-graph press, with the understanding that when three new presses which were ordered arrived, he would be made a foreman with the proper increase. He didn't know at the time what it was.

He has been over there now for about 2 weeks. His first pay day is coming very shortly. Later he found out he was not getting \$185. He is getting \$135 a month. Besides that fact he was supposed to have worked 48 hours a week. However, last Tuesday that office wanted a job done and required him to work something like 12 or 14 hours steady, and he must, being the only pressman there. He put that time in with the understanding he was to receive overtime, as is general throughout the printing industry. A few days later when he found out that he was not getting paid overtime because he wasn't putting in his 40 hours a week anyway, and the fact he worked until 12 o'clock at night or 2 o'clock in the morning didn't make any difference.

Now, he has told me yesterday he is going to quit, because he can't make the living wage for his two children and his wife, and he wants to come back into the industry in Detroit. I have enough work only to give him 2 days per week, and his situation is such that if he works 2 days or 3 days for me, he will get as much money as he will for them in a week.

Now, they are putting in three more machines at \$1,628 apiece, and each of those machines will have to have a man to work them.

Mr. PLOESER. Do you know where they obtained the machines?

Mr. GALE. From the Multigraph people. They are 11 by 17 machines.

Mr. PLOESER. Have they actually obtained the machines?

Mr. GALE. One of them was delivered, I think, last week, just the one. Now, at the time he asked this foreman, who by the way is not a printer, to buy a machine which would turn out the work with greater ease, which would be a 17 by 22 machine, which would take four sheets and an 8½ by 11 sheet, but they didn't. They bought this other machine, 11 by 17, which gives a great deal more work.

Mr. PLOESER. Can you supply us with the name of the office?

Mr. GALE. I can't at this time. I am going to get the information. I can get the information.

Mr. PLOESER. Send it to the committee.

Mr. GALE. Yes.

The CHAIRMAN. Thank you, sir.

Mr. WINTER. Mr. Chairman, may I say something? It is a notorious fact and is known all over the country that Detroit is a distressed industry as far as printing is concerned. There had appeared in the Detroit newspapers advertisements to the effect that jobs are available in other cities in the printing, lithographing, and the graphic arts, and as a result some of our best men have left. In my case, I have lost several of them. Some have gone to Baltimore, some to Philadelphia, and so on, and I think that that typifies the condition in the city, because I can't recall ever having seen an advertisement in the newspapers asking for pressmen, and I think the fact is known that Detroit is distressed and we have an unemployment situation, and consequently they are concentrating on Detroit to get the men, because if we can't hold them they have to get work somewhere. But it is tragic, as it has taken us years to build up an organization, and to lose it and lose our employees one by one is going to put us in a very unfavorable position later on.

The CHAIRMAN. Thank you, kindly.

We will resume the hearing at 2 o'clock this afternoon.

(Whereupon, at 12:15 p. m., the hearing was adjourned to 2 p. m. of the same day.)

AFTER RECESS

The select committee met, pursuant to recess, at 2 p. m., in the Bagley Room, Hotel Statler, Detroit, Mich., Hon. Edward A. Kelly presiding.

Present: Representative Kelly, acting chairman, (Illinois), Charles A. Halleck (Indiana), and Walter C. Ploeser, (Missouri).

The CHAIRMAN. Mr. Guy C. Smith.

STATEMENT OF GUY C. SMITH, OF BROOKE, SMITH, FRENCH & DORRANCE, INC., CHAIRMAN OF THE BOARD, AMERICAN ASSOCIATION OF ADVERTISING AGENCIES

The CHAIRMAN. You may go ahead, Mr. Smith, state your name and business affiliations.

Mr. SMITH. My name is Guy C. Smith, of the firm of Brooke, Smith, French & Dorrance, of Detroit and New York. I am chairman of the American Association of Advertising Agencies. I have a statement which I would like to read into the record.

(Whereupon the statement referred to by Mr. Smith is in the words and figures as follows, to wit):

STATEMENT OF GUY C. SMITH, BROOKE, SMITH, FRENCH & DORRANCE, INC., DETROIT AND NEW YORK

Any testimony I may offer at this hearing is given with a full awareness that war needs are of paramount importance—and that nothing must be left undone in any industry which can contribute directly or indirectly to the war effort.

At the same time, I am aware that the question of the survival of many businesses during the war period—and their availability at the end of the war—is today a matter of serious concern in every quarter.

For this reason, it is my belief that any decisions which affect the wartime activities of an industry should also take into account its peacetime functions, and the value of the services it renders in normal times.

With these things in mind, I would speak strongly in favor of any course that would utilize the manpower and facilities of the graphic arts industry to the fullest possible extent in war work—without unnecessarily jeopardizing its post-war future.

In our capacity as advertising agents, with one of our divisions located in Detroit, we serve the automobile and other industries on the one hand, and are served by the graphic arts businesses on the other.

We are in close and constant contact with both groups. We are thoroughly familiar with their work and their problems—and are, I believe, in a position to comment objectively and impartially on the phase of the situation in this area.

As this committee knows, Detroit has grown up with the automobile business, and while there are many other large and important industries centered here, the automobile has been the backlog of a tremendous amount of activity in many allied and subsidiary fields.

The marketing of automobiles is in many ways as complex and technical a problem as their manufacture, and there have grown up in the Detroit area many organizations of specialists whose primary business it is, under peacetime conditions, to serve the automobile industry.

These include paper companies, photographic and art studios, photoengravers, electrotypers, printers, lithographers, and binders. The size and importance of their operations are indicated by the fact that, excluding paper houses and art studios, they did a business of more than \$17,000,000 in 1941, and gave employment to over 4,000 men and women.

People outside the business do not commonly realize the extent to which all these graphic arts services must be specialized, in order to meet the unusual requirements of automobile marketing.

Photographing an automobile correctly, for example, is an art that few of even the best known studios have mastered. Creating and retouching automotive illustrations calls for special techniques which artists have spent years in perfecting.

Detroit engravers and electrotypers have developed special methods and processes to assure effective reproduction of the automobile. Detroit typesetters and printers have installed, at large cost, special presses and other equipment for the sole purpose of producing, economically and in large quantities, the kind of printed matter required by the automobile companies.

This brief outline indicates to some degree the dependence of the graphic arts industry in Detroit upon the automobile business. It is my understanding that stoppage of automobile manufacture has cut off 80 percent of the business of typesetting houses, printers, lithographers, and electrotypers in this area.

It is not within my province to estimate the immediate effect of this curtailment upon these individual businesses. I do, however, wish to emphasize the fact that the automobile companies, in turn, are highly dependent upon the graphic arts industry in the normal operation of their business.

When automobile manufacture is resumed at the end of the war, it will be of vital importance that the machinery for marketing these automobiles be again put into immediate operation. Advertising will have to be produced quickly. Immense quantities of catalogs, booklets, folders, service manuals, and other special material will be needed, production of which would tax the existing production facilities of the graphic arts businesses.

It has taken years, and the investment of large amounts of money, to create these services. If, in the meantime, they are allowed to disintegrate and disappear, they can be replaced only at the cost of years of time and further large investments of money.

The advertising agency business, of which I am a member, has nothing to ask for itself at this hearing. In the peacetime marketing of automobiles and other products, however, these graphic arts services are of vital importance both to us and to the clients we serve.

It is my studied opinion that any course which unnecessarily penalizes Detroit's graphic arts companies—resulting in the closing of any appreciable portion of them—would very seriously handicap the post-war activities of the automobile and other large businesses.

It is my opinion, on the other hand, that any action which may make it possible to preserve this service structure essentially intact, will be a wise, constructive, and forward-looking course.

I should like, at this time, to make just one further point which I believe is pertinent to the subject under discussion. In wartime, a large percentage of Government printing is necessarily of a highly confidential nature.

As you gentlemen undoubtedly know, the work on literature and other advertising of new car models is begun many months before the automobiles are announced or shown to the public. The automobile companies have come to rely implicitly on the discretion of artists, engravers, printers, and other such suppliers with respect to the advance information involved.

In 25 years of experience, I personally have not known of a single case in which this trust has been violated by a member of the graphic arts industry in this territory. This confidential handling of information which is regarded as "trade secrets" has become a matter of routine with them.

I am confident that in the matter of Government printing, their conduct in this respect would be beyond reproach.

The CHAIRMAN. Thank you, Mr. Smith.
Mr. Thomas P. Henry.

STATEMENT OF THOMAS P. HENRY, JR., VICE PRESIDENT AND GENERAL MANAGER OF THE THOMAS P. HENRY CO.

The CHAIRMAN. Mr. Henry, you may give your name and business affiliations.

Mr. HENRY. I am Thomas P. Henry, Jr., vice president and general manager of the Thos. P. Henry Co., 41 Burroughs Avenue, Detroit, Mich.

(Whereupon a statement presented and read by Mr. Henry was in the words and figures as follows, to wit:)

STATEMENT FOR THE CONGRESSIONAL HEARING ON THE DETROIT PRINTING SITUATION

I am Thomas P. Henry, Jr., vice president and general manager of the Thomas P. Henry Co., 41 Burroughs Avenue, Detroit, Mich. Today I am representing not only my own firm before this committee but the tradesetting and advertising typography industry of Detroit. Our industry supplies typesetting service to the local printers and advertising agencies.

The figures I am about to give came from five of the larger local typesetting plants and they represent approximately two-thirds of the facilities available in our business in Detroit.

These five plants during their best years handled a total of \$983,000 worth of business. In the year 1941 the volume in these plants amounted to \$896,000; percentage-wise this means that our industry in 1941 was within 8% percent of our best years taken collectively.

The picture however has changed considerably since the stoppage of automobile production. This can be best illustrated by comparing January 1941 with January 1942. In 1941 the billing for our plants amounted to \$86,000; in January of this year, however, our volume has dropped to \$49,000, a shrinkage of 42% percent.

As far as our employees are concerned, in January 1941 we employed 268 men and women in our establishments, in January 1942 that employment figure had shrunk to 196, expressed in percentage this amounts to 26% percent.

As is the case with the other allied industries, when our volume dropped off we immediately looked around for other sources of business. The typesetting industry must of necessity be primarily a local business. Service requirements are such that except in unusual circumstances on exceptionally large jobs it is impractical to furnish typesetting to customers at any considerable distance from Detroit. We are, then, vitally interested in any business that our printer or advertising customers can secure from out of town.

As Mr. Winter testified this morning, the most likely place for us to look for orders is the Government. This is true particularly at this time because of the tremendous increase in the volume of Government printing and consequently Government typesetting. When we endeavor to secure Government business we find, however, that our industry is in competition with the Government Printing Office, as well as individual Army printing departments.

Generally speaking the Army printing departments have equipment for the planograph method of printing. This process is also known as photolith. It is offset printing through the use of photography. In other words, the illustrations and the copy, whether that copy be set in type or typewriter, are put before a camera and a printing plate is prepared by transposing the image from the original copy to a zinc or other type of printing plate.

The Army has used these plants and this method of printing for some of their instruction books, maintenance manuals, and price lists. Generally speaking, the copy and information which goes into the instruction books which the Army orders to accompany tanks, planes, or guns are prepared by the manufacturer who makes the equipment. Usually the illustrations in the instruction manuals are prepared by artists who are familiar with the manufacturer's product from other days. Sometimes the printing on these jobs is purchased also by the manufacturer. Sometimes however it is not.

To be more specific, the Army Ordnance Division at Raritan Arsenal, Metuchen, N. J., has had a department to handle their printing requirements. This has consisted of eight small photolith presses on which they can print two pages of 8½ by 11 sheets at a time. It is my understanding that they have ordered and are planning to install two large press units which will approximately triple the capacity of this printing plant.

Another Army division that has considerable printing equipment is the Army Air Corps headquarters at Wright Field, Dayton, Ohio. It has been the practice for overflow from these Army plants to go to our biggest competitor the Government Printing Office in Washington.

It seems to us that in most cases it might be better to have this type of printing handled here in Detroit by the manufacturer who is entirely familiar with the requirements as far as his own product is concerned. In order to prevent misunderstanding I would like to repeat that there are many jobs of this character which are now being handled entirely by the Detroit manufacturers. On the other hand we are informed that there are still many that the Army is printing.

Whenever the Army asks the manufacturer to purchase the printing which is to accompany the article he is furnishing, the Army sets up certain specifications. Many divisions of the Army allow plenty of latitude, so that the manufacturer may purchase that printing in the manner that is best for the particular job he is furnishing.

There is at least one specification with which I am familiar, however, that impresses me as being questionable. The Army Air Corps specifies that their material must be typewritten. It does not allow typesetting and further than that it specifies a particular type of typewriter composition called Varityping.

With your permission I would like to take a few minutes to explain to you gentlemen the difference between a job composed on the typewriter and one which has been set in type. There is no question that there are many jobs which are most economical when they are handled by typewriter composition. However there are many jobs that are more efficiently handled when set by some method of typesetting. Generally speaking jobs on which the run is short are better in typewriter because the initial cost of the typewriter composition is considerably less than the initial cost of a job which is set in type.

On the other hand on a job which is in a hurry a typesetting plant will go two or three times faster than a shop which is preparing the job for typewriter composition. Secondly, as you can easily understand, alterations are going to be more difficult in typewriter composition. Generally speaking it is necessary to retype the page. The type form however can be corrected by simply changing the lines or characters necessary. This is also very desirable if the printing form is going to be later adapted to some truck or tank similar in character to the article described in the first printed copy.

Experiments show that on many jobs typesetting can save considerable space. It is for this reason that on long-run jobs even though the original composition may cost more in type the completed job may cost considerably less than the original extra expense of typesetting. The saving can amount to from 25 to 50 percent in space and consequently in paper. In view of the current difficulties that our paper mills are having particularly with the cheaper grades of printing paper, this advantage of the typesetting printing job seems worth investigation. I would like to submit a job from a parts list which was handled in typewriter. I am also showing proofs of that same job which has been set in type. You will note that there is a saving of approximately 50 percent in space. I do not claim that this is typical on this class of work but it can happen. In addition the typesetting industry has another advantage to offer in the matter of quality. No

one will deny that a printed job is easier to read if properly prepared and printed from type than if it is printed from typewriter. I believe that we ought to furnish the soldier who may be trying to repair his tank under trying conditions with the best possible material to assist him in that endeavor. It does seem to me unwise that the Army Air Corps should arbitrarily insist on this specification. How many other Government defense jobs are bought under this type of policy we do not know, but we are sure there are many.

Another problem I would like to call to the committee's attention deals also with the Army Air Corps. This time with their matériel division which is located in Detroit. This department handles procurement for the central district of the United States, supervising production for all Air Corps purchases between the Alleghenies and Rockies. It is also headquarters for the Air Service Command and the Ferry Command. Any printing which is required for this huge department must first go to the Air Corps headquarters in Washington and then to Wright Field printing department. It does not impress one as being a method designed to expedite their printing purchases.

In conclusion we would like to ask the committee to consider three ways abuses can be cured. First, would it not be possible to investigate the Army printing specifications and purchases. In many instances we are sure that the job is being done efficiently but in others a central planning department undoubtedly would accomplish much. Secondly where that is not now permitted we suggest it might be best to allow the local manufacturer to handle the entire printing purchase for the Army, rather than vice versa. Thirdly the Detroit typesetting industry is vitally interested in any assistance which the Government can offer to deal the local distress printing problems through Government Printing Office printing allocations.

STARTER

1941

Part No.	Name	MZ-4092	MAB-4100	MBM-4001
STARTING MOTOR AND HYDRAULIC TOP LEFT MOTOR				
MU-31	Insulating bushing.....	1		2
MAB-85	Insulating bushing.....	1		2
MU-37	Plain washer-5/16".....	1	1	2
MU-39	Insulating washer.....	1	1	2
MZ-29	Pole piece.....	4		
MAB-29	Pole piece.....		4	
MA-29	Pole piece.....			4
MZ-38A	Pole piece screw.....	4		4
OK-38	Pole piece screw.....		4	
MZ-30A	Field connection insulator.....	1		
MAB-30	Field connection insulator.....		1	
MBL-30	Field connection insulator.....			1
MZ-32	Field coil connector.....	2		
MAB-32	Field coil connector.....		2	
MBM-32	Field coil connector.....			1
MBM-33	Field coil connector.....			1
MBM-34	Field coil connector.....			1
MZ-1007	Field coil-U. L.....	1		
MAB-1007	Field coil-U. L.....		1	
MBM-107	Field coil-U. L.....			1
MBM-1008	Field coil-L. L.....			1
MBM-1009	Field coil-L. R.....			1
MZ-1008A	Field coil and brush assembly-L. R.....	1		
MAB-1008A	Field coil and brush assembly-L. R.....		1	
MZ-1007B	Field coil and brush assembly-L. L.....	1		
MAB-1009B	Field coil and brush assembly-L. L.....		1	
MZ-12	Brush.....	2		1
MAB-12	Brush.....		2	
MZ-12	Brush.....			1
MZ-1040	Field coil-U. R.....	1		
MAB-1010	Field coil-U. R.....		1	
MZ-1007	Field coil-U. R.....			1
MN-21	Dowel pin.....		1	
X-1014	Lock washer-5/16".....	1	1	2
8X-1376	Hex. nut-5/16"-24.....	1	1	2
12X-1014	Lock washer-5/16".....	1	1	2
8X-1376	Hex. nut-5/16"-24.....	1	1	2
MAD-20	Frame screw.....		2	
X-146	Hex. nut-1/4"-20.....		2	
X-192	Lock washer-1/4".....		2	
X-439	Other-press in type.....		1	

Part No.	Name	MZ-4022	MAB-4100	MBM-401
	STARTING MOTOR AND HYDRAULIC TO: LIFT MOTOR—continued			
MZ-2002	Commutator end plate assembly.....	1		
MAB-2002	Commutator end plate assembly.....		1	
MBL-2002	Commutator end plate assembly.....			1
MZ-16	Brush holder.....	2	2	2
MZ-19	Brush spring.....	4	4	2
MZ-40A	Absorbent bronze bearing.....	1	1	1
MZ-1034	Brush assembly—grounded.....	2	2	1
X-532	Oval head tubular rivet— $\frac{1}{4}$ " x $\frac{1}{4}$ ".....	4	4	4
X-196	Lock washer—#10.....	4		
X-544	Lock washer—#10.....			2
X-902	Fillister head screw—#10-32 x $\frac{1}{4}$ ".....	4		2
MZ-2128	Armature assembly.....	1		
MAB-2113	Armature assembly.....		1	
MA-2151	Armature assembly.....			1
MZ-35	Bearing thrust spacer.....	1		
MBL-35	Bearing thrust spacer.....			1
MU-54	Thrust washer— $\frac{1}{16}$ " thick.....	2	2	1
X-261	Woodruff key—#6.....		1	
MZ-1024F	Head band assembly.....	1		
MAB-1024	Head band assembly.....		1	
MZ-1024	Head band assembly.....			1
MZ-1139	Drive end head assembly.....	1		
MAB-1110B	Drive end head assembly.....		1	
MAB-124	Absorbent bronze bearing.....	1	1	
X-489	$\frac{1}{4}$ " o.d.—press in type.....	1		
8X-119	Fillister head screw—#10-32 x $\frac{1}{4}$ ".....	4		
X-66	Flat head screw—#10-32 x $\frac{1}{4}$ ".....		2	
X-308	Round head screw—#10-32 x $\frac{1}{4}$ ".....	1		
8X-308	Round head screw—#10-32 x $\frac{1}{4}$ ".....			1
8X-1555	Round head screw—#10-32 x $\frac{1}{4}$ ".....	2	2	
X-715	Round head screw—#10-32 x $\frac{1}{4}$ ".....		1	
X-261	Woodruff key—#6.....	1		
X-544	Lock washer—#10.....	4		
8X-794	Square nut—#10-32.....	1	1	
X-1274	Shakeproof washer—#10.....	2		1
EBA-29	Bendix drive assembly.....	1		
EB-108	Lock washer.....	2	2	
EB-8506	Special screw.....	1	1	
EBZ-513	Antidrift spring.....	1	1	
EBA-525	Meshing spring.....	1	1	
EBA-531	Screw shaft assembly.....	1		
EBA-432	Pinion assembly.....	1		
EBA-533	Retaining ring—narrow groove.....	AR	AR	
EBA-1223	Retaining ring—wide groove.....	AR	AR	
EBA-2905	Drive spring.....	1		
EBA-2907	Shaft spring screw.....	1	1	
SS-4001	Solenoid starting switch (Hudson #BO 45997).....	1	1	
8X-832	Hex nut— $\frac{5}{16}$ "—24.....	2	2	
12X-1014	Lock washer— $\frac{5}{16}$ ".....	2	2	
8X-1372	Hex nut—#10-32.....	1	1	
X-949	Terminal.....	1	1	
X-999	Terminal.....	1	1	
X-1461	Terminal.....	1	1	

(At the figure (1) in the thirteenth line of page 4 of the statement read by Mr. Henry, the following transpired:)

Mr. HENRY. Would you like to see these jobs?

The CHAIRMAN. Yes; we would be interested to see them.

Mr. HENRY. There is a parts list (referring to the sheets referred to). It is not an Army job but it is a job that was handled by typewriter composition. There is the same job set in type [indicating]. You can see that it takes up only about half the space on the type-set as compared with the typewriter composition.

(Whereupon Mr. Henry completed reading the statement already referred to.)

The CHAIRMAN. Mr. Henry, in your statement that you made and in the statement that the man before you made, it was said that

practically 80 percent of your business came from the automotive industry as its source.

Mr. HENRY. That is true of the printing industry in general.

The CHAIRMAN. Was there any effort made prior to this war program or prior to this war itself to get any outside business, outside of the automotive industry?

Mr. HENRY. I would answer that question by pointing out that in general the man who goes out into the national printing market and solicits business is soliciting it in the highest competitive market there is. The people who get the orders from national markets are people who are operating in low-cost centers of production, generally speaking. And Detroit printers, unless they have had a particular advantage on a particular job have been unable to get printing other than Detroit printing.

The CHAIRMAN. In other words, they were never adapted to accept anything outside of what they have here?

Mr. HENRY. With the labor costs as they are in Detroit it is very difficult to go into the general printing market of the country.

The CHAIRMAN. Thank you, Mr. Henry.

Mr. William F. Sage.

STATEMENT OF WILLIAM F. SAGE, COMMERCIAL BINDERY, DETROIT, MICH.

Mr. SAGE. I am not representing my own firm here today, so much as I am the trade binders of Detroit.

(Whereupon Mr. Sage presented a statement in the words and figures as follows, to wit:)

STATEMENT OF TRADE BINDERS—DETROIT

(By William F. Sage)

The trade bookbinder is an asset to the graphic arts, supplementing the equipment of various firms, to handle peak loads, as well as all work in some cases, more economically and speedily.

With our volume of business reduced because of conversion of auto industry and the cessation of direct mail and advertising printing, the discontinuance of house organs and publications, we are in jeopardy of losing our trained personnel who will and are seeking other avenues of employment because of scarcity of work. This personnel will be needed several months in the future when converted plants are operating on defense production to provide the finishing operations for the printer on the multiplicity of forms necessary for records and keeping of data in these plants.

What is needed is a few orders from the Government Printing Office to maintain our personnel till such time as they are needed for this work or if more vital need is in arms plants then they will not have had their morale shattered for such participation. The Government Printing Office could very well release some of the orders on material which is in demand but which cannot be secured. Putting the half million dollars' worth of trade bindery equipment to work instead of burdening the Treasury and delaying the spread of information, waiting for new equipment for its own Office. By buying new equipment and enlarging the Government Printing Office bindery, the Government is killing the goose that lays the golden eggs. For without a fair amount of business there will be no profit, hence, no taxes, no bond purchases.

There are 10 main finishing plants in the trade-bindery line in this city. Half of these have been able to maintain close to normal volume in capacity not in

dollars because of the need of work of the other half. The half who have been hardest hit by present conditions present the following figures:

Sales:		
1928.....	-----	\$1, 179, 149
1941.....	-----	1 \$969, 923
January 1941.....	-----	\$85, 380
January 1942.....	-----	1 \$52, 142
Employees:		
January 1941.....	-----	389
January 1942.....	-----	1 238
	1 Of 17.7 percent.	1 Of 38.9 percent.
		1 Of 38.8 percent.

The CHAIRMAN. Thank you, Mr. Sage.
Mr. Peter H. Schotanus.

STATEMENT OF PETER H. SCHOTANUS, WAYNE COLORPLATE & RAPID ELECTROTYPE CO.

The CHAIRMAN. You may proceed, Mr. Schotanus.
(Whereupon a statement was read by Mr. Schotanus in the words and figures as follows, to wit:)

A STATEMENT OF FACTS, COVERING THE RELATIVE CONDITIONS IN THE PHOTOENGRAVING AND ELECTROTYPING INDUSTRIES, USING DOLLAR SALES OF JANUARY 1941 AGAINST JANUARY 1942 AS A BASIS OF COMPARISON

A survey and analysis of the photoengraving industry in Detroit for the months January 1941, against January 1942, reveals the following:

Dollar volume for 11 plants reporting give a production of \$195,456 for 1941.

Dollar volume for the same group of plants for 1942, \$105,822.

This proves a volume shrinkage, as a result of the automotive industry having been taken over by our defense effort of 45.8 percent. In other words, it can be reported that the photoengraving industry of Detroit was operating 54.2 percent of normal in 1942 against 1941.

The group of plants reporting employed a total of 429 persons in 1941, while a total of 288 employees is given for 1942. This shows an employment shrinkage of 32.8 percent in 1942 as against 1941.

In short, the January comparison indicates that the photoengraving industry of Detroit has suffered a loss in volume of 45.8 percent, an employment shrinkage of 32.8 percent using January 1941 figures as a basis of comparison with our records of January 1942.

Let me now give you a similar report on the electrotyping industry.

The analysis of the electrotyping industry of Detroit for the months of January 1941 against January 1942, gives us the following picture.

Dollar volume for the three plants reporting, gives a production of \$64,404 for 1941.

Dollar volume for the same group of plants for January 1942, \$24,948.

This gives us a volume shrinkage of 61.2 percent. The direct result of our automotive industry having been taken over by our defense effort. In other words, it can be reported that the electrotyping industry operated 38.8 percent of normal in January 1942 as against January 1941.

The group of plants reporting, employed a total of 120 persons in 1941, while a total of 96 persons were reported employed for January 1942. Indicating an employment shrinkage of 20.0 percent in January 1942 as against January 1941.

In short, the January comparison indicates that the electrotyping industry of Detroit suffered a volume shrinkage of 61.2 percent using January 1941 records as a basis of comparison with our records covering January 1942.

Let me now deviate and give to you a national comparison. As you may or may not know, I serve as president of the Rapid Electrotpe Co., a national organization, having manufacturing plants in five of our larger cities, serving five distinct trade areas, our plants being located in New York, Philadelphia, Cincinnati, San Francisco, and Detroit. We also maintain branch offices in Chicago and Atlanta.

An analysis of our consolidated dollar sales, excluding Detroit, covering New York, Philadelphia, Cincinnati, San Francisco, Chicago, and Atlanta, shows a

volume shrinkage of only 13 percent in these six metropolitan cities. In other words, it can be reported that the electrotyping industry, serving the above trade areas, operated at 87 percent of normal in January 1942 as against January 1941, whereas the Detroit electrotyping industry operated at 38.8 percent of normal in the same period.

Here we have concrete evidence that the shrinkage in electrotyping, which means art, engraving, electrotyping, typography, bookbinding, printing, etc., has been far greater in Detroit than in any other advertising center.

For the city of Detroit is a one-industry center, and when the automotive industry was given over to defense, the graphic arts industries, and the bread and butter of those employed therein, were sacrificed therewith.

There should be no question about this for the grouped engraving and electrotyping analysis definitely proves the point.

This sacrifice to national defense, we representing the graphic arts industries of Detroit, are happy to make. However, if it is true that Detroit has been more severely affected than most other cities, and if there is to be a great defense demand, for such of our services as are now idle in Detroit, then it would seem only reasonable and fair that Detroit should receive first consideration on such Government requirements, and that our idle facilities should be given precedence over trade areas, which, as proven by statistics have hardly been affected, or are even now operating at normal or above normal. This is the opinion of the photoengraving and electrotyping industries of Detroit.

Now in conclusion, please do not look upon this as a plea for charity, but rather consider it as an appeal to eliminate waste and to conserve man-hours.

We, here in Detroit, have unemployment and idle machinery, and this is a national waste. To employ our men and our idle facilities, will enable us, in Detroit, to make our contributions to national defense—to carry and to pay our fair share of the tax load, employee and employer alike.

In business, as in family life, it seems unfair and criminal that some few should suffer with the gout, while others are not able to do their bit because of a starvation diet. That some in our graphic arts industry should be working at overtime rates, while others are idle. That some should be enjoying a lush period of plenty, while in the very same industry, others are living on the ragged edge of want and bankruptcy.

In short, we representing the graphic arts industries of Detroit, do not wish to employ high pressure tactics, nor do we wish to be unfair in our expectations. All we are asking is a fair and equitable distribution of Government graphic arts purchases. This, after having considered our Detroit problem in relation to the country as a whole, and, after having weighed and considered all the facts as presented today.

This gentlemen, in brief, concludes my report.

PETER SCHOTANUS,
President, Wayne Colorplate Co., Detroit, Mich.
RAPID ELECTROTYPE CO.,
Cincinnati, Ohio.

(NOTE.—At the figure (1) at end of line 15 on page 1 of said statement as read by Mr. Schotanus, the following transpired, to wit):

The CHAIRMAN. May I interrupt you right there. As to the shrinkage in the employment situation here in the printing industry, have you any idea as to the employment situation here in Detroit in the automobile industry taken over today by the War Production Board?

Mr. SCHOTANUS. I know it is quite an increase; the point is here that the business of the photoengravers is a highly skilled trade, and therefore we are carrying perhaps more than we should; I appreciate that war production retraining is taking up the younger photoengravers and electrotypers as the men are dropped off of our pay rolls. However, 48 percent of the shop workers are aged 40 years or more, and not suited to retraining.

The CHAIRMAN. You may proceed.

Mr. SCHOTANUS. All right.

(Whereupon Mr. Schotanus continued to read from his statement to the figure (2) in line 26 of page 1, where the following transpired:)

Mr. SCHOTANUS. I wish to say at this time that there are six electrotyping plants in the city, of which three have seen fit to cooperate in these figures, and three for reasons of their own have not cooperated.

(Whereupon Mr. Schotanus continued to read to the end of the statement.)

Mr. HALLECK. You are speaking primarily for the electrotypers and—

Mr. SCHOTANUS. Photoengravers.

Mr. HALLECK. Photoengravers. Is it your idea that you should be doing more work direct for the Government or is it your idea that if the printers and those who actually do the work here in Detroit were given more of the work, then you would get from them a better share?

Mr. SCHOTANUS. That's right. We are part of the supply group; we supply the printers; when the printers fail, we, as a rule, fail with them.

Mr. HALLECK. In other words, there are, we might say, a number of subsidiary enterprises which for their solvency are dependent upon the solvency of the business of the printers?

Mr. SCHOTANUS. That's right. In other words, I would not mean to say that this supply group is entirely dependent upon the printers, but the welfare and the prosperity in the printing industry certainly helps and improves our chances.

Mr. HALLECK. I did not mean that you were fully dependent upon it but your figures would indicate that you are considerably dependent upon it.

Mr. SCHOTANUS. Yes, sir.

Mr. HALLECK. That is all.

The CHAIRMAN. Thank you, Mr. Schotanus.

Mr. Forest W. Starling.

STATEMENT OF FOREST W. STARLING, SEAMAN-PATRICK PAPER CO.

Mr. STARLING. My name is Forest Starling, of the Seaman-Patrick Paper Co., 1225 Vermont.

(Whereupon a statement was presented by Mr. Starling, in words and figures as follows, to wit:)

A survey of the business of six representative printing-paper distributors of this city shows that our business has fallen off 53½ percent since the outbreak of the war.

Situated as we are in between the Kalamazoo Valley in Kalamazoo and the Miami Valley in Ohio, where 10 percent of the printing paper made in the United States is manufactured, we are ideally located to serve the printers of Detroit quickly and economically, due to the short freight haul by rail, truck, or in the season, by boat. We know machine trims, state of business at the time of the nearby mills and where to have the orders made, to the best advantage from a standpoint of no waste machine time.

We await the opportunity, through the printers of Detroit, of serving the Government at the lowest possible cost and with the greatest possible speed. If there are any questions the committee would like to ask, I would be very happy to answer them to the best of my ability.

Thank you for the opportunity of presenting our present situation to you.

The CHAIRMAN. Mr. Starling, you being in the paper industry, have you encountered a shortage of paper?

Mr. STARLING. Well, that is a pretty broad question. There is an acute shortage of some types of paper, and a surplus of other types. There is a surplus of what I would call the advertising types of paper, and a shortage of what I would call the necessitous types of paper, always speaking of printing papers.

Mr. PLOESER. We are hearing some complaint in Washington about there being shortages of various types of printing papers.

Mr. STARLING. Yes; that is true.

Mr. PLOESER. I wondered if that is a localized condition or if it is national.

Mr. STARLING. No; it is a national condition.

The CHAIRMAN. Thank you very kindly.

Mr. L. E. Phelan.

STATEMENT OF L. E. PHELAN, SECRETARY-MANAGER, DETROIT ASSOCIATION OF CREDIT MEN

Mr. PHELAN. My name is L. E. Phelan; I am secretary of the Detroit Association of Credit Men.

(Whereupon a statement was read by Mr. Phelan, in words and figures as follows, to wit:)

STATEMENT OF L. E. PHELAN, SECRETARY-MANAGER DETROIT ASSOCIATION OF CREDIT MEN ON DETROIT PRINTING INDUSTRY

My position has brought me in very intimate touch with the Detroit printing industry during the past 15 years and we are very much concerned and alarmed at the situation confronting the major printing plants of this city whose problem has been created by Government regulations in the automotive and defense center of the country.

The problem is not one of immediate credit concern, for these companies have paid their suppliers and labor bills promptly throughout the years. Most of these plants have been developed and their personnel trained to serve almost exclusively the automotive industry and unless proper and immediate relief can be given them through placing a volume of work over their presses and other equipment, they are faced with disastrous liquidation which also will have its repercussions on the highly skilled employees as well as suppliers to this industry.

If the condition is permitted to exist many days longer, their personnel, whose highly technical training does not lend itself to absorption by defense industries, will be scattered, making it impossible for those printing institutions to reestablish themselves once peace has been declared.

The tremendous dislocations with which the industry is confronted can be very materially ameliorated by simply shifting a portion of the printing of governmental agencies and departments, to this market which will not only clear bottlenecks, produce printing more economically, but will prevent disaster to a most important unit of Detroit business. This organization representing 18,000 members throughout the country with no selfish purposes involved, plead with your honorable committee to give the problem confronting the Detroit printing industry, your immediate and earnest consideration to help them produce in order to survive.

The CHAIRMAN. Thank you, sir.

Mr. PLOESER. Mr. Phelan, don't you feel that there will still be a gap, even if the Government could supply a sufficient amount of printing, for example, to keep this industry living and existing during the period of war production, don't you think that there will still be a considerable gap between the end of that period as it might apply to the need of printing, and the reconversion of the automobile business back into civilian supply?

Mr. PHELAN. There will be some gap there; there is bound to be; and that is one of my concerns, the future of the industry when the war is over, provided it can be kept in existence and can survive during the war. My own notion is, in feeling the pulse of the industry as I do year in and year out and day in and day out, that there has been a decline of somewhere between 55 and 70 percent, and those plants that are affected have been the cream of the crop of our printing plants in this district. For the first time in my 20 years of experience, I have been stumped to be able to give to a man who comes to my office for advice as to what is ahead of him, any answer other than production over his mills. At the moment he isn't, but in all our suppliers—many of them are all dressed up with a quarter of a million or \$300,000 or \$350,000 plant; and his equity in the business can be dissipated in several months by paying rent, insurance, and even if he closes the door, hoping for business to come back sooner than it will come; because I have lived with these men for 15 or 16 years, I do take a very intense personal interest in their welfare; and because I represent an organization here which has been in existence, looking after the financial welfare of our district from a credit standpoint, I don't like to sit idly by and not be able to give these gentlemen, when they come for advice, something other than the mere fact that the only thing that will save them, in my judgment, is material going over their equipment.

Mr. PLOESER. How long will it take the automobile industry to reconvert?

Mr. PHELAN. I would say that the printing industry, in my judgment, when the peace is declared, will immediately—one of the first things it will have to reestablish itself is that they will be in a position to get them their printing and advertising some months before other people, if that is the point you are trying to make.

Mr. PLOESER. That is what I am driving at. I am wondering, even though there may be a period of salvation, if it is not in a measure prolonging the ultimate death of a lot of this industry in that reconversion period?

Mr. PHELAN. If Detroit goes down to that death—you know we are pretty much of a one-horse town as to industry; we have drugs and the automotive industry; we have no food, no clothing, and very few of the other necessary industries, on which the printing industry can diversify itself, so it is not knocked out completely when its chief source of customers goes out of existence by regulation; but I would say that the major plants that make up the cream of the crop of this industry here amount to somewhere from 55 to 70 percent of the total purchase and the total dollar volume of printing that goes through this town.

Mr. PLOESER. What is the total dollar volume of printing that applies to the automobile industry? What does this 80 percent loss mean in dollars?

Mr. PHELAN. I could only give you a guess on that, but I would say somewhere between twelve and fourteen million dollars in this town. That might be a stab but that is my observation and that is my impression. And I would have to give you those figures more correctly by checking the records, but I am basing that somewhat on the total volume of supplies, and of course I don't know the total dollar volume of material that goes into the completed product.

Mr. PLOESER. That is all.

Mr. HALLECK. Just a minute: I again feel urged to express to you and to these other people that are making these statements, my commendation and I am sure that of the committee, for your very splendid attitude. Of course, all of us who are struggling with these problems of dislocation brought about by the war effort must recognize that a lot of dislocation is just inevitable. You cannot transfer forty or fifty billion dollars of the productive capacity of America to the building of a war machine and away from consumer goods, and not adversely affect a lot of people. But as I understand it, it is your position, not that we should in any way impede the war effort, but that the dislocation should be kept at a minimum by affording as much of the available work to the people now in the business as it is possible to give them?

Mr. PHELAN. That is correct.

Mr. HALLECK. Just one further thing: It has been touched on here in some of the other statements. Is it your view that the printing industry in Detroit, by reason of the almost complete knocking out of the automobile business, is in a more distressed condition than the average printing business over the country?

Mr. PHELAN. I would very definitely say "Yes," and I am in a position to make some comparisons through the records of the supply credit cards throughout the country through our organization.

Mr. HALLECK. That is what I had in mind. Now then, as a matter of policy for the Government to pursue, because as I understand it they have pursued a similar policy in other fields, would it be your idea that such Government work as there is might be diverted in larger measure to those areas where the most distress has occurred?

Mr. PHELAN. I would think that would be the sensible thing to do provided they can do it economically. I feel they can in this field because of their closeness to the major source of supply in printing, which is paper.

Mr. HALLECK. Of course, that is one thing that all of us interested in the Government must constantly keep in mind, that is the matter of costs, because of a very great responsibility for the whole thing.

Mr. PHELAN. I am intensely interested in keeping the cost down, as you can imagine most credit men are.

Mr. HALLECK. And yet I would not want what I have said in the record to be taken as meaning that all of this work ought to go to some sections of the country where they do not pay the wages that you pay here in Detroit. I do not think that is right.

Mr. PHELAN. Detroit is an odd market in many respects, because it does not have the diversified industries that most major sections of the country have, and I have the same problem in my association created by that as compared with Chicago, Philadelphia, and some other major markets, and I am in position month after month to see these variations and compare them with Detroit's variations in our own organization. Our lack of diversity here is one of our curses when a situation of this kind comes up and I had very clearly this supporting evidence happen when the bank holiday came on, and these men because the banks were closed, these men I am now talking about, when they could not pay their bills increased the amount of money on the books of suppliers somewhere around 65 percent, just in 1 month, when they could not pay the month's bills, because the banks were

closed; and we do have a peculiar market in Detroit as compared with other major markets. We have a market that would be comparable with another market that lives off of practically one industry.

The CHAIRMAN. Thank you very kindly, Mr. Phelan.

Mr. Frank Martel?

A VOICE. Mr. Martel has not arrived, but Mr. Ballback has arrived.

The CHAIRMAN. Mr. Ballback.

STATEMENT OF FRED R. BALLBACK, INTERNATIONAL PHOTO-ENGRAVERS UNION

The CHAIRMAN. Give your name and business affiliations.

Mr. BALLBACK. Fred R. Ballback, affiliated with the International Photoengravers Union of North America.

The CHAIRMAN. Have you a statement?

Mr. BALLBACK. I don't know what this is all about, Mr. Chairman. I have just come into the city and I was requested to be here. I expected to meet my corepresentatives, Mr. Martel, and others.

The CHAIRMAN. Maybe you are not prepared to give a statement?

Mr. BALLBACK. I am not prepared to give a statement.

The CHAIRMAN. You may sit back there.

Mr. BALLBACK. All right.

The CHAIRMAN. Is Mr. Richardson here?

A VOICE. No one representing the labor unions is here yet.

The CHAIRMAN. Is Mr. Campbell here?

A VOICE. He is not here yet.

The CHAIRMAN. Is Mrs. May Vander Pyl here?

A VOICE. She is here.

STATEMENT OF MRS. MAY VANDER PYL, ADVERTISING LETTER SERVICE, DETROIT, MICH.

Mrs. VANDER PYL. My name is May Vander Pyl, Advertising Letter Service, Detroit.

The CHAIRMAN. You may proceed.

Mrs. VANDER PYL. I am representing the Mail Advertising Service Association, Local; I am secretary of the local; also a member of the board of the National Mail Advertising Service Association. I would like to submit facts concerning commercial duplicating, that end of the business.

(Whereupon, a statement was presented by Mrs. Vander Pyl in the words and figures as follows:)

BUCKLEY, DEMENT & Co.,
February 3, 1942.

Mr. FREDERICK A. VIRKUS,
Illinois Division, National Small Business Men's Association,
Chicago, Ill.

DEAR MR. VIRKUS: You requested that I herewith submit to you facts concerning the commercial duplicating business of the Nation—comprising for the most part, small and medium size business enterprises.

The aggregate number of commercial duplicating companies (letter shops) in the United States, operating mimeographs, multigraphs, multiliths, dupligraths, addressographs and other duplicating machines, based on the 1940 census, is 2,396 establishments.

The number of persons employed in this specialized commercial service is estimated to be 36,000 men and women.

The total investment in present equipment installed in the 2,396 offices and plants of commercial duplicating companies (letter shops) is estimated to be \$21,980,000.

Notwithstanding the availability of these commercial establishments, whose normal business is now seriously impaired by war economy, practically all the Government agencies, regional offices, ordnance and quartermaster procurement arsenals of armed forces, etc., in many sections of the country are entering in competition with these commercial enterprises through the purchase and operation of duplicating equipment.

Such purchases by the Government for the most part are unnecessary and unwarranted, as all their requirements can be satisfactorily produced by the existing commercial duplicating plants in the cities and towns throughout the Nation where regional offices are located.

With the loss of normal trade, these existing commercial duplicating companies need the support and cooperation of the Government if they are to continue in business, maintain employment, and pay taxes.

When the Government purchases new duplicating equipment, it does so through its preferred priority position and it is thereby taking from war defense needs, necessary steel and other metal materials which constitute the construction of duplicating machines.

The sad and tragic part of this situation is the waste involved—not only in cash outlay by the Government in making such purchases, but in the fact that thousands of these duplicating machines will be salvaged in a few years hence—auctioned off and sold by the Government at any price.

We have only to go back to the records of the World War of 1917 to discover what took place in this respect, when thousands of office duplicating machines glutted the market as old discarded equipment.

The existing commercial duplicating companies of the Nation appeal to its Government to utilize to the fullest the facilities that are available, to the end that their business may be permitted to live, with the support that their Government can and should give to them.

They have the experience and the skill necessary to produce for the Government all the needs that may be required—economically, speedily, and satisfactorily.

In this situation there is no justification for the Government unnecessarily competing with existing private enterprise, or undertaking to do through its own operations what can be purchased in the open market, often at lower cost, from available commercial sources of supply.

This information is presented to you in behalf of the Mail Advertising Service Association—a national organization of owners and operators of commercial letter shops in the United States.

Respectfully submitted.

BUCKLEY, DEMENT & Co.
HOMER J. BUCKLEY, *President*.

Mrs. VANDER PYL. This letter was turned over to a representative of our group, Mr. Homer Buckley, of Chicago, representing Detroit and other locals, and was carried by Mr. Frederick A. Virkus of the Illinois division of the National Small Business Men's Association, direct to Mr. Nelson, and I will read briefly and then turn this thing in to the report. This was published in the Chicago Journal of Commerce:

(Whereupon an article from the Chicago Journal of Commerce was read by Mrs. Vander Pyl.)

Mrs. VANDER PYL. Then I have another piece to submit. This is an ad that was run in the New York Times day before yesterday—

The CHAIRMAN. Is that a newspaper ad?

Mrs. VANDER PYL. That is from the New York Times, and they state there that there are some 500 people who are ready with all equipment, and it says also that we are used to these confidential orders and I think I will leave that and not give you anything further.

The CHAIRMAN. We will determine whether we will let that go into the record or not, because we are involved here in getting authentic information. That is what we are here for.

Mrs. VANDER PYL. All right.

Mr. HALLECK. Do I understand that ad is from 500 people who can do this duplicating work for the Government agencies and the armed services?

Mrs. VANDER PYL. That is paid for by a large New York mailing concern, citing the others. We are trying to work in a cooperative way in trying to do something as an association, as well as with approximately 10 percent of invested capital here in Detroit.

Mr. HALLECK. Are these organizations for whom you are speaking so situated geographically that they are available to do the work?

Mrs. VANDER PYL. That is right.

Mr. HALLECK. That the Government needs to have done?

Mrs. VANDER PYL. That is right. Our main work is the mimeographing and the multolithing, ditto, specifications, and work of that sort. Printing equipment. We are not talking about that, but we are talking about the other machines of which the Government has so many. This was submitted at a meeting of the board of directors in St. Louis last week, and when I returned I went here in Detroit to the War Production Board in the Woodward Building at Woodward Avenue and the Boulevard; I called there to determine if some of this work could be let out. I talked with the contact man there and he said, "I will have to inform you that we have a certain number of machines here and we are handling our work."

I said, "Suppose you should reach the point where you cannot quite handle it with that equipment, anticipating the stopping of manufacturing of these machines?"

He said, "Well, we will simply buy more machines if we cannot handle the work with what we have."

I said, "Well, supposing you reach the situation of overtime, with printers working on a certain hourly basis here?"

And he said again, "I will have to tell you this, these people will work all the overtime that is necessary."

The CHAIRMAN. You do not know who that individual was?

Mrs. VANDER PYL. Yes, I do.

The CHAIRMAN. Will you give me the name for the record?

Mrs. VANDER PYL. Well, later. I would rather not give it now.

The CHAIRMAN. We would like to know.

Mrs. VANDER PYL. I will supply that name.

Mr. HALLECK. That is work that is being done in connection with the W. P. B. here in Detroit?

Mrs. VANDER PYL. Yes; the War Production Board.

Mr. HALLECK. And you have commercial organizations that can do that work?

Mrs. VANDER PYL. That's right.

Mr. HALLECK. What reason did he give you for that? That you were charging too much?

Mrs. VANDER PYL. No; prices were not asked for. He said they had their own equipment, and I said, "Suppose you cannot handle it with the equipment you have?"

He said, "Then we will buy more equipment."

And I said, "Suppose you reach this overtime proposition?"

He said, "Then we will work——"

The CHAIRMAN. Mrs. Vander Pyl, the reason that I asked that question that we would like to know the names of those individuals——

Mr. HALLECK. She can supply that in private.

The CHAIRMAN. We get so many of these complaints and yet we have no substantial evidence to present, you see, and we are here to get whatever we can, and I wish you would, after a while, if you do not care to do it in public, submit the name to us so that we might have it.

Mrs. VANDER PYL. I will be glad to do that.

Mr. HALLECK. It was someone in authority there that you talked to?

Mrs. VANDER PYL. I asked to talk to the purchaser of supplies and was sent to this man's desk. I did not know him. Frankly, I wanted to find out as a member of the board of directors just what was being done. I will say this, that I called at another office, and there I found a man who said, "We will be glad to cooperate; I don't know what the situation is," he said, "and I wonder if you will advise me if I should buy a certain machine."

And I said, "I don't think you need it."

The CHAIRMAN. Will you let me see that advertising there?

Mrs. VANDER PYL. Yes, I will [handing clippings to the chairman].

The CHAIRMAN. Thank you, Mrs. Vander Pyl.

Mr. Forest H. Wainscott.

STATEMENT OF FOREST H. WAINSCOTT, VICE PRESIDENT, MOERS, INC.

Mr. WAINSCOTT. My name is Forest H. Wainscott, 170 East Larned Street, Detroit, representing Moers, Inc.

The CHAIRMAN. Will you speak a little louder?

Mr. WAINSCOTT. After sitting and listening to the program this morning, it occurred to me—

The CHAIRMAN. Whom do you represent?

Mr. WAINSCOTT. Moers, Inc. It occurred to me that one of the biggest items was being overlooked. I presented it to the chairman at noontime and they said if they had time they would give it a hearing.

The CHAIRMAN. What chairman did you present it to?

Mr. WAINSCOTT. Of the printers group of Detroit.

The CHAIRMAN. I see. I know it was not presented to me.

Mr. WAINSCOTT. No; the printers group of Detroit.

The Government printing employees have been increased from 3,000 to 8,000, an increase of 5,000, while in Detroit alone there is now about 3,000 printers out of work and a great quantity of idle equipment. It would seem to me that it would have been a good program for this committee if you could have visited some of those plants and seen that equipment all covered with canvas.

Mr. HALLECK. We will take your word for that.

Mr. WAINSCOTT. The machinery people are still producing and pushing the sales of machinery to the different Government bureaus and agencies, including the Army and the Navy. And I might say that I am making this as a suggestion to the committee, I hope as a helpful suggestion.

Why couldn't the committee request the different printing machinery manufacturers to produce a record of the number of machines sold to the Government in all of its different departments in the last

2 years? Be sure not to overlook any multilith, multigraph, addressograph, and all off-set and printing equipment. These machinery companies are getting high priority ratings in securing valuable materials and parts to duplicate equipment that already exists. This equipment is in the regular trade plants and is now idle. All machinery manufacturers, printing machinery manufacturers can use their equipment to produce badly needed war work. And some are now doing this.

The CHAIRMAN. Right there, according to your suggestions, would you want the Government to come in and requisition the printing plant or an operating machine at one of these idle factories and move it down to Washington?

Mr. WAINSCOTT. No; just the opposite. Instead of buying all of these new machines or manufacturing them and sending them to Washington, why can't they send the printing here?

The CHAIRMAN. That is what this committee was formulated for, to see if we could not have them reverse their stand and bring those essential articles into the communities where these plants are.

Mr. WAINSCOTT. It was a suggestion on a point that possibly the committee could request that information from these people that are producing this machinery and trying to force the sale of it to the Government.

Mr. HALLECK. This committee might ask some of the Government people about that, too. We do not have to be limited in our inquiry.

Mr. WAINSCOTT. It seemed to me that that was being overlooked.

The CHAIRMAN. No; it is not being overlooked by the committee. We are familiar with that situation. Go ahead.

Mr. WAINSCOTT. That was the point I was offering.

The CHAIRMAN. Thank you very much.

Mr. Safran?

STATEMENT OF HYMAN SAFRAN, MANAGER OF THE SAFRAN PRINTING CO.

The CHAIRMAN. Mr. Safran, will you give your name and business affiliation?

Mr. SAFRAN. My name is Hyman Safran, and I am manager of the Safran Printing Co. here in Detroit.

The CHAIRMAN. You may proceed, Mr. Safran.

Mr. SAFRAN. Our plant did not specialize in automobile work at all. But I do want to point out that in an indirect way, as is the case with the other plants, our business has fallen off about 40 percent, that is without having any direct automobile work at all.

The CHAIRMAN. You never had any automobile work?

Mr. SAFRAN. No, sir.

Mr. HALLECK. Why is that? Are the people that did automobile work now getting some of your business?

Mr. SAFRAN. No. The business does not exist. Agencies which used to do automobile work and as a side line promoted advertising specialties for smaller concerns, have gone out of business or have curtailed their staff, and that work has gone out of existence, likewise.

I am speaking mainly from an experience I had a few days ago. We received a request from Washington to bid on some 12 printing jobs. I estimated the work and it involved about \$3,000 worth of salable printing. The job was specified, stock furnished by the Government, f. o. b. Washington, D. C. The printed matter to be delivered back to Washington. The freight cost on that \$3,000 worth of work was about \$2,000. So I knew when I sent my bid in that there really should not be a chance of my getting it, because the freight was so high, and a printer situated closer to Washington, D. C., would obviously get the work.

There was no request for a break-down as to what item was freight and what item was presswork. And it occurred to me that as was stated before that here is a situation with the Government purchasing the stock from a paper mill possibly here in Kalamazoo, Mich.—

Mr. HALLECK. That is what I wanted to ask you. Has that stock been freighted down to Washington from some place out here?

Mr. SAFRAN. It certainly did not come from Washington, because I know of no large paper mills in Washington. And what might have happened was that the paper was ordered in Kalamazoo, Mich., where it was manufactured and then sent to Washington, and then the paper had to be brought back here for work by the successful bidder, and then sent back to Washington again by him, and then it might finally come back here to Fort Wayne.

Mr. HALLECK. All of which clips you out.

Mr. SAFRAN. Yes; that clips us out. And causes a waste of a lot of money. I would like to offer this suggestion, first, that the Government Printing Office do all the preliminary work, such as the art work and the plates so that all printers will be on an equal basis; second, that the country be divided into a number of areas surrounding the ultimate destination of that printing work, and the size of those areas should be controlled, I believe, by the degree of dislocation in that particular area in the printing business.

For instance, Detroit being very hard hit should have a larger area to service in printing because we have more equipment available and more idle printing plants that are distressed.

And finally the Government bid should be based on stock delivered f. o. b. our plants, and quoted by us f. o. b. the ultimate destination, not Washington.

I understand we are going to face a shortage of rolling stock and I think if there can be a short-cut on printing the jobs and getting them to the ultimate destination that would save a lot of money and furnish a lot of work in the areas where we need it most.

Mr. PLOESER. I can agree with most everything you said except letting the Government Printing Office do the preliminary work. Why would you put them in that business?

Mr. SAFRAN. Because they in fact are in that business.

Mr. PLOESER. Well, not as much as they are in the printing business. But whether they are or not, why put them in an additional business?

Mr. SAFRAN. It certainly is not necessary, but the way the bids came to us is the way they were requested. All plates to come to us with all preliminary work done by the Government.

The CHAIRMAN. All right, thank you. Mr. Campbell.

**STATEMENT OF HARVEY W. CAMPBELL, VICE PRESIDENT,
DETROIT BOARD OF COMMERCE**

The CHAIRMAN. You may state your name, Mr. Campbell.

Mr. CAMPBELL. My name is Harvey W. Campbell, of the Detroit Board of Commerce.

The CHAIRMAN. You may proceed, Mr. Campbell.

Mr. CAMPBELL. My particular interest in this, of course, is civic, because I am hired to be civic, and I am anxious to see that the future of Detroit is preserved.

There are a great many folks in Detroit who have the idea that we have no business looking toward anything except the winning of the war. But we have to remember that our President said something about the winning of the peace.

And if we are going to do that, we will have to do some "hoop-la" business. And if we destroy the printing industry in Detroit we will delay the post-war procedure.

I happen to be kind of married to this job because there were not any laws to prevent me from going to work when I was a kid, and from my earliest days I found myself in the photoengraving business, even when I was 14 or 15 years old. And once you get the printer's ink into your blood, it is a disease and you cannot get away from it.

And I am tremendously worried about the present position of a great industry in Detroit. I saw this industry grow. At one time it was very difficult to get some of the best craftsmanship in this town. I have heard the names of Wells and Winchell and a lot of other printers when I was young, and I have seen the printing business develop to the place where Detroit is the center for all kinds of printing, and I have seen it become an actual merchandising accessory of the automotive industry.

The reason the automobile industry has become the leader that it was before it was destroyed a month ago was because it had the merchandising ability and accessories right here close at hand. And the name of the city of Detroit has been heralded in every town where anybody can see or can read anything, as the headquarters for precision manufacturing, largely through the efforts of these men who have been able to do this kind of a job, to be part of the associated industries in the printing business.

Your automotive craftsmen and worker have been taken over, and they were probably building a motor once before and they are still building motors. But 80 percent of the printers will have to go out and build a motor or some other machine and after that he will not be the kind of a printer he was.

Because this town has become highly prosperous, the printers have prospered under the automotive industry. And when you take that away, and it has been taken away, all incentive toward advertising has been taken away. So that you lose these men as printers, and although they will get along and eat and you try to make mechanics of them, you destroy their ability to come back. And the future of this town depends to a tremendous extent upon the ability of the Detroit area to come back.

There is going to be another transition from war work to normal production. But a tremendous amount of that will depend upon the merchandise ability of the people who go back into the business under

whatever condition exists, whether it is socialized or still capitalistic or whatever it is—it will depend upon the ability of those people to sell what they make, and they have been able to sell it through the use of the men in this room and what they represent.

And I appeal to your committee, for the sake of the future of the United States and the prosperity of the United States, to do all you can to buy the insurance policy, the prosperity policy, that will make the future load a little bit easier.

The CHAIRMAN. We hope so, too. You mentioned about the automobile industry being destroyed. You don't mean that? It is temporarily suspended.

Mr. CAMPBELL. Have you seen it? It is turned out in the snow.

The CHAIRMAN. I understand that, but at the same time those plants are being utilized.

Mr. CAMPBELL. Yes; but not for the automobile industry.

The CHAIRMAN. I understand that also, but if we happen to lose this war through lack of production there would be no use for automobiles after that.

Mr. CAMPBELL. I have no objection to the automobile industry being destroyed for the winning of the war.

The CHAIRMAN. We hope it is only suspended temporarily.

Mr. CAMPBELL. Well, we wonder what it will look like when it comes back. I am sure there is nothing in anything that I have said that indicates that it is not coming back, but I have been pleading with you to help it come back if you can do anything in Washington in that direction. What we want is some printing business, for God's sake.

The CHAIRMAN. You should have been here this morning.

Mr. CAMPBELL. I have heard these guys for 20 years.

The CHAIRMAN. All right; thank you very much.

Mr. Sparkman.

STATEMENT OF C. G. SPARKMAN, DETROIT TYPOGRAPHICAL UNION

The CHAIRMAN. Will you state your name and your business affiliations, please?

Mr. SPARKMAN. Clifford G. Sparkman, president of the Detroit Typographical Union; also president of the Detroit Allied Printing Trades Council. I have some figures here in regard to the Detroit Typographical Union, which is the compositors and printers' union.

I have done the best that I can to assemble figures with regard to the state of employment in our particular organization. It is somewhat difficult in view of the fact that our members are scattered around in some 135 shops, and we have a membership slightly in excess of 1,500. And the best figures that I could work up on it are that in the newspapers we have 545 members, 385 of whom are employed and 156 of whom are unemployed.

We have a separate branch we call the directory branch—they are commercial printers, but they operate under a separate contract, and there are 69 employed and 35 unemployed.

And in our commercial field we have 811 members of whom there are 203 employed and 601 unemployed. That is three-fourths of the commercial field.

We have 51 pensioners and 11 people in the Union Printers Home at Colorado Springs.

The unemployed include everyone who is not regularly employed. Now of course I do not mean that these people get no work at all, because in many cases they are working possibly 1 or 2 days, but they are the people without regular jobs.

We have lost a certain number of members recently, in excess of 10 who have dropped out of the union by taking honorable withdrawal cards; you can get out of the union in two ways, by not paying your dues and finally you will be suspended for nonpayment of dues, or by taking an honorable withdrawal card. That card shows you have been paid up and you can come back at any time.

We have 36 members now in defense plants and 81 in the classes training for defense plants, and 9 members in the armed services.

I might explain in regard to that that we have among our apprentices probably over half of them in the Army.

The average member of the typographical union has an age of around 45 or 46 years, and we have not had very many apprentices training in the past 10 or 15 years. During the depression we agreed with employers to keep apprentices out altogether for quite a period of time.

Recently there have been more apprentices back on again, but the Army has taken half of them out of the picture and some others have quit and gone where they can make more money. They range in age from 18 to 25, and they can fit into the defense-plant scheme.

Our members are wandering around; some are selling insurance and some are doing other things. And we do not know where they are going to be in 2 or 3 years from now when we hope the printing business will revive if there is any printing business left by that time.

I think that covers it about as well as I could give you, unless you have something you would like to ask me.

Mr. HALLECK. There has been quite a bit of talk here, Mr. Sparkman, about competition given to the man in private industry in the printing business by the Government. Now, purely from the employee standpoint, and you represent the employee, would your members rather work for the Government on the Government pay roll printing this stuff, or would they rather continue to live here in Detroit or in any other place where they might be, and continue on the pay rolls of their private employers to do such work as the Government might need to have done?

Mr. SPARKMAN. Well, I can answer that, because I happen to be a former employee of the Government Printing Office some years ago. The average member would much prefer to be here, because he knows the way the thing has been expanded down in Washington, and that there probably would not be permanent employment there anyway. And the wage scale in Washington is not any better, not much better, and most of the fellows living in Detroit have their homes and have their relatives and friends here, and they have no particular desire to go to Washington, and especially in view of the fact that they have worked maybe 10 or 15 years in this plant and they expect to work another 20 or 25 years there, and if they go to Washington, when the war is over they don't know where they are going to wind up.

And in regard to one other thing that was brought up by Mr. Safran, I do not care to see the Government, any more than necessary,

do the preliminary work and send the plates here, because the composition is our end of the business, and that would practically exclude everything we do outside of make-up and registering for color and things of that kind.

Mr. HALLECK. Of course, he could only speak for himself, and I got the idea from what he said that what he wanted was some sort of an equal opportunity among the different people who are competing for the work.

Mr. SPARKMAN. I do not think he was aiming at us because he employs quite a few of our members. I think he would like to have something for his composing room as well as for his press room, although his press room is the big end of the business.

The CHAIRMAN. Mr. Martel.

STATEMENT OF FRANK X. MARTEL, PRESIDENT, DETROIT AND WAYNE COUNTY FEDERATION OF LABOR

The CHAIRMAN. You may state your name, Mr. Martel.

Mr. MARTEL. Frank X. Martel, president, Detroit and Wayne County Federation of Labor, and a member of the typographical Union since 1912.

Mr. Chairman, I understand the purpose of this committee so far as this hearing is concerned, is to gage the situation here in Detroit of the printing industry.

I was glad to hear the statement of the chairman that the automobile industry is only temporarily suspended. A goodly portion of the volume of printing executed in Detroit has been used in the advertising of the automobile industry. The tearing down of the production lines in the automobile plants preparatory to inaugurating the program of production for defense purposes has destroyed an outlet for the commercial shops and opportunities of employment for those employed in commercial shops, and it has likewise destroyed opportunities of employment for printers employed on our daily newspapers.

That is true in many other localities as well as Detroit because the automobile industry was a large consumer of publication advertising space.

Mr. HALLECK. If I might intervene there, Mr. Chairman. The committee would not want the impression to go out that we are interested in Detroit alone. We are charged with a consideration of these problems—

Mr. MARTEL. I understand.

Mr. HALLECK (continuing). All over the country as a whole. But it was our thought that the situation was more acute in Detroit and that we could get here a pretty definite picture as it existed all over the country.

Mr. MARTEL. I think you will find that is true. I mentioned a consumption of advertising space in other places in publications because it has relationship to the work that originates here.

We have one large shop that is employed almost exclusively as an ad shop in production of plates for national advertising, and these plates are shipped all over the country.

Now, printing tradesmen—whether they are pressmen, photo-engravers, electrotypers, or members of the typographical group—are highly skilled workers. Because of long years of organization,

the printing trade is pretty well set in its ways. Printers no longer drift around the country as they did in the days of the "tourist" printers.

Most of the people in the printing trade are home owners. The men that are discommoded here as a result of curtailment of employment opportunities are distressed. They can't pull up and go out of the city and seek employment at the Government Printing Office in Washington, or anywhere else without great inconvenience to themselves.

Then, again, if the automobile industry is to come back, it should have available all the facilities that are a part of the printing industry that serviced the automobile industry, it is just as much a part of the automobile industry as the production line itself, because without that ready source of printing, they would not be able to keep pace with the marketing schedules that have long been the practice of the automobile industry.

Catalogs are prepared and they are in the hands of the distributors before the cars are produced. The preparation of the catalogs go along at the same time that the dies and patterns which produce the cars go along.

The practice of the Government to do all of its work in the Government Printing Office in Washington may be justified in normal times, but where the Government is absorbing the productive capacity of a great industry like the automobile industry, and then leaving out on a limb the printing industry and attempting to execute its additional printing in the Government Printing Office, or sending it out to some other locality, it is unfair to Detroit, and we believe unsound from a business standpoint.

If the Government has an excess volume of printing, it seems that good judgment would dictate that such excess would be placed where there are facilities at the present time, and if it costs a few pennies more; or if they have to temporize with conditions, that is not as important as the preservation of this great industry, here, in this city, which means so much to the people who depend on it when they need it.

I have had men come to me who wanted to go to work in the Government Printing Office and asked me to try and get them a job there. I have done that for some of them. I have known some of them to come back. The Government Printing Office is a union shop. There is not anyone working there except the members of the union. So, the union conditions prevailing there would not be different, but still these people would prefer to be employed, if they can secure employment, in their own locality. Yet, in spite of the fact that they may have civil-service protection and possibly a pension from the Government, they have the equivalent of civil-service protection in any union shop because of the priority regulation of the various printing trades unions. Therefore, there is not much that the Government, as an employer, can add to the conditions of employment that a well-regulated printing office has. The printing offices in this community that we are talking about, and which are hit by this thing are strictly union shops.

It may be that the Congress in its wisdom will see that this work is sent in here at least to the extent that it will keep these men employed in their regular avenues of employment. It is true that some of these people could fit into the defense industries, but in fitting

them into the defense industries, we might unfit them for the printing industry.

Henry Ford has upward of four or five hundred of the members of the musicians union employed in his automobile factory in normal times, but due to a desire on the part of the management to protect music, they have sorted those people out and located them in jobs that would not unfit them in their musical work. Men who follow the musician's calling must be skilled in their fingers. They must have a sensitive touch and because of that they have been given consideration on that basis in their employment in behalf of music.

That same thing holds true in the printing industry. The education of the compositor's hand is equivalent to that of a musician, and if he doesn't have that touch he doesn't stay in the shop.

That is all I care to say, gentlemen.

The CHAIRMAN. Mr. Martel, just a moment.

Mr. PLOESER. Go ahead.

The CHAIRMAN. You may go ahead, Mr. Ploeser.

Mr. PLOESER. Thank you.

I wanted to ask this question: Is it your opinion—the remarks that you have made might indicate some opinion along this line—that the automobile industry should do something toward the preservation of this branch?

Mr. MARTEL. No. I don't think the automobile industry ought to be called on to do anything except meet the needs of the Government in producing on the defense requirements. I think that they have been given the worst jolt of any industry in this country. They have been asked to scrap their whole system of production, to put in new equipment, to train a group of men from their own plants, and to call on them to do anything more seems to me to be unfair.

The CHAIRMAN. Along that line, they haven't suffered anything by it financially?

Mr. MARTEL. I don't think we have as yet the answer to that. It is generally assumed that Uncle Sam as a purchaser of service and supplies is a good man to deal with, but we don't know what is coming out of these things.

These people had a business and they were making money, a lot of money. That is why we organized them, to try to take some of it away from them. But, we haven't any assurances that when the needs of the country are served—and they have got to come first—that the anticipated profits out of war production will be left with those who own the automobile industry. A lot of the profits may be taken away from them. There may be many arguments between the administrators representing the Government and the owners of these plants as to what is a fair profit. There may be many things that they will charge up to the Government that you won't let them get away with, and that may work both ways.

So, I don't think we have the answer to that question.

Mr. PLOESER. There will be the additional expense of going back.

Mr. MARTEL. They will have some buildings that you paid for, and they will have some machinery that you paid for, and whether or not they can use this is a question.

One man in this town built a building, one of the finest factories in America; that was the Lincoln Motor. He went into the automobile

business after building motors for the Government, but he never made a success in the automobile business after that. Before that time he had produced the finest car in America in the finest shop. That was Mr. Leland. He went broke, and Henry Ford bought that shop as a depression bargain. That is what can happen as a result of a "war baby."

Are there any other questions, gentlemen?

Mr. HALLECK. Yes. Your men would rather work in private enterprise rather than on the Government pay roll as a matter of normal operation?

Mr. MARTEL. Let me answer that this way: Our men would rather continue with their present employer. Now, if we had here a publicly owned printing shop, they would just as soon work for that as they would for a private employer if prevailing conditions were equivalent. They would rather work for their present employer because they wouldn't have to pull up stakes. They believe that their security is greater if they have continued employment with their present employer. It means they can stay where they are set—that is, are secure, and because of the seniority rule, or the priority law in the various printing trade's book of laws which every employer agrees to respect. To pull up stakes in Detroit today and to go into another city where they have to start in at the bottom of the list puts them at a disadvantage in that city, as compared with the man that lives there 15 or 20 years.

Those of you familiar with the laws of the printing unions know that many times men will be around a printing shop 2 or 3 years before they get a steady situation.

Mr. HALLECK. Possibly I shouldn't have asked because maybe it involves a philosophic discussion of socialization of industry, as against private enterprise.

Mr. MARTEL. Yes.

Mr. HALLECK. But in the immediate situation, from the standpoint of the employeers' interest, and leaving out these fellows running the plants, whose money is invested—

Mr. MARTEL. Yes.

Mr. HALLECK. If this stuff has got to be printed somewhere, somebody has got to work on it. That means somebody has to go out and work with his hands on everything that has got to be printed.

Mr. MARTEL. Yes.

Mr. HALLECK. So far as I am concerned, I would prefer private enterprise to do it. If we can't win this war under that system, we are not going to win it.

Mr. MARTEL. You are absolutely right.

Mr. HALLECK. And further, just to summarize what seemed to me to be what you were getting at:

There is no tendency on your part to complain of the dislocations that are absolutely essential or necessary for the most efficient waging of the war? It is your idea, as I get it, that dislocations ought to be kept at a minimum, that we should not go in for unnecessary dislocations when they can be avoided?

Mr. MARTEL. That is absolutely right. You have also got this situation: The men, of course, in the automobile plants come out of the homes of Detroit working-class families. Some of them are coming out of the homes of the printing trades' families. All printers'

sons do not go into the printing business. Some of them go into the automobile business. You have hit both ends of the family here. The one that is hit by the printing industry's plight is distressed, and the one employed by the automobile industry is distressed. If there was one breadwinner left in the family while the other fellow is learning his new technique for the production of war work it might reduce the size of the social problem to this community, and mean less of a welfare problem to the Government; it would be the reestablishment of a steady pay roll that this community has depended on not year in and year out, but day in and day out.

The printing industry has not been like the automobile industry, a seasonal employment. It has been a year-around employment, the printing industry.

The CHAIRMAN. Thank you very much, Mr. Martel, for your appearance, and thank you for the fine statement you have made.

Mr. MARTEL. Thank you.

The CHAIRMAN. Mr. Ballback.

STATEMENT OF FRED R. BALLBACK, INTERNATIONAL PHOTO-ENGRAVERS UNION

The CHAIRMAN. Your name? State your name, and proceed.

Mr. BALLBACK. Fred R. Ballback, International Photoengravers Union.

Mr. Chairman, in speaking for the photoengravers, I want to confirm a statement that was made here by one of the photoengraving employers, Mr. Schotanus, as to the number of men engaged in the photoengraving industry that are without employment at the present time.

Out of approximately 450 we now have about 150 men—approximately 32 percent—are unemployed. I don't know just how our employes, the photoengravers, might fit into defense industry. I would say that they might also be included amongst that class of people who in the exercise of their occupational technique have developed a touch that if transferred to some other kind of work might lose their touch and unfit them for their occupation and this character of employment.

As has been stated, many of these men own their own homes in the city of Detroit, and while I don't want to present a claim that the high wages that they have been accustomed to earning should be considered for their continuation in their present employment, yet the fact that they have received high wages has made the ownership of homes possible, and unless employment continues for them here, and unless they go in defense work—which, of course, they are trying to do at the present time—they jeopardize not only their security to continue their employment should they return, but they also jeopardize their investment in their homes.

I don't know that I can add a great deal more in a general way to what has already been said, but it should be taken for granted that whatever affects the printing industry in the city of Detroit likewise affects the photoengraver because we are an integral part of the printing industry, as such.

The CHAIRMAN. Thank you very much.

Mr. BALLBACK. I think that is about all, Mr. Chairman.

The CHAIRMAN. Thank you, sir. Mr. Wisdom.

I will have to ask you gentlemen to be as brief as possible. Our time is limited here. It is getting near train time and we have got to get out of here.

Mr. WISDOM. Mr. Chairman.

The CHAIRMAN. Mr. Wisdom?

STATEMENT OF WALTER G. WISDOM, DETROIT PRINTING PRESSMEN AND ASSISTANTS' UNION

Mr. WISDOM. Mr. Chairman, my name is Walter G. Wisdom, secretary of the Detroit Printing Pressmen and Assistants' Union and also secretary of the Detroit Allied Printing Trades Council.

I think the case has been pretty well summarized here this afternoon. I want to prevent as much repetition as possible. I want to speak particularly about the printing pressmen in this distressed area of the commercial printing industry of Detroit.

We have here among the commercial pressmen and assistants and newspaper pressmen and apprentices better than 1,000 members. Out of this group there are about 450 pressmen and assistants distressed as a result of total elimination of advertising and printing.

I have reference to the four-color process plants that have been totally hit and closed almost completely, and at the general meeting of the Pressmen's Union in January a resolution was adopted to try to do something about that. After that time a committee was formed by the Allied Printing Trades Council to go to Washington to see if we couldn't get some of the overflow printing from the Government Printing Office. We received information from Mr. Giegengack, the Government Printer, that the business from the Government Printing Office could not be sent to Detroit due to the time limitations, and we suggested to him that the emergency printing shouldn't be sent out of the Government Printing Office, but that the Government Printing Office should be kept in a position to do the important, emergency printing for the Government that might be a question of winning or losing this war, if the Government Printing Office is not in a position to do work especially on emergency work. It was our thought that the Government Printing Office could put into Detroit certain form work, time copy, and so forth, that could keep our industry together—keep our people together here, and at the same time release the equipment in the G. P. O. to do this emergency work that it should do.

Now, since that time we have received one job here in Detroit that has been very helpful, especially to our people in the pressrooms. We are now printing in some of our shops the Government ration card, the sugar-ration card. It has placed about 75 to 90 people to work in pressrooms.

If we could get some of the time work, some of the regular form printing that the Government is engaged in, that they know months in advance they are going to produce, we could plug along on an economical basis to the Government and it would serve the purpose of giving relief to this distressed condition, and at the same time give relief to the Government Printing Office so that it could execute its emergency work.

Now in our particular craft we have here in Detroit a group of pressmen, make-ready men, to be exact, that are of an average age that could hardly be adapted to automobile work, and on top of that, that wouldn't be very good for our industry if they left and did not come back to it, or if they lost contact with the printing industry. I might state that make-ready men in a pressroom do work, especially on four-color process work, that it is not easy to do. In fact, the make-ready men in all of these trades are the old-timers. This is especially a serious situation as it affects them, and I am thinking particularly of that group of the older pressmen ranging between the age of 50 and 65 years, working today as make-ready men on four-color presswork. We haven't got many of those people left, and that is one of our chief concerns.

We have, of course, certain specialty shops that have been hit hard, like direct-mail plants, as for instance, the R. L. Polk Co., who employed 100 pressmen, who have been completely disorganized as a result of the war emergency.

Thank you.

The CHAIRMAN. Thank you, Mr. Ballback.

Mr. Fry? Mr. Richardson? Mr. Laframboise?

Is this Mr. Richardson?

Mr. RICHARDSON. Mr. Richardson.

The CHAIRMAN. How long will it take you, Mr. Richardson?

Mr. RICHARDSON. I can make it very brief.

The CHAIRMAN. I wish you would.

STATEMENT OF ASHBY RICHARDSON, PRESIDENT, ELECTROTYPES UNION NO. 34

Mr. RICHARDSON. My name is Ashby Richardson, president, Electrotypes Union No. 34. I would like to stress the time lost.

In 1941, in the month of November, we lost 992 hours. For the same month, 1940, it was only 464. December 1941, after the declaration of war, we lost 3,688 hours as compared with the same month in 1940 of 296. In the year 1942, the month of January, the hours lost jumped to 5,688; in the same month, 1941, it was only 328 hours lost. In 1942, February, the figures are not complete as yet, but for the same month in 1941, there were only 24 hours lost.

Now, we have paid out in benefits the last 4 months: November (1941) \$151.78; in December (1941) we paid \$1,454.70; in January (1942) \$2,620.82; in the month of February (1942) because of several jobs we got from the Government the hours lost were decreased—those dollars paid out in benefits were decreased to \$1,266.94.

Mr. Chairman, we have some of our people that we are trying to train over into defense work. We have two classes going through now. Today we are trying to race our treasury, and when our funds are depleted it is possible we will have to go to the State compensation welfare. Until such a time as our treasury is depleted, our people are not taking any compensation other than from our union.

Over a number of years we have built up an out-of-work fund in our plant. In our assistants' union we started off with 42 members. Today there are only 16 of the men working, and of the other 26, some of them are in the armed forces of the country, in defense jobs, and trying to get defense jobs. The assistants' union organized last year.

The CHAIRMAN. Thank you very kindly; sir.

Mr. LaFramboise?

Mr. LAFRAMBOISE. I will be very brief.

The CHAIRMAN. Just state your name.

Mr. LAFRAMBOISE. All right; sir.

STATEMENT OF A. L. LA FRAMBOISE, PRESIDENT, INTERNATIONAL BINDERY WORKERS UNION

Mr. LA FRAMBOISE. My name is A. L. La Framboise, president, International Bindery Workers Union, International Brotherhood of Book Binders.

I merely wish to call to your attention, as was remarked by the chairman, that other cities are also in distress. I want to call attention to the fact that Detroit had been in distress since December, long before other cities had felt this distress because of dislocation of printing through the change-over into defense work.

Now, our organization is composed 65 percent of women. We are a mixed local. We have approximately 200 journeymen, the rest are women. Since December our families have been dislocated—part-time employment and total unemployment.

We have had profference of employment from all over the country through our international office, but because of the make-up of our membership—the male membership have their homes here, the women membership living at home and 60 percent of our women members are self-supporting—it is difficult for them to accept positions of employment out of the city, even from the Government. They have preferred to remain here.

We might succeed in relieving that partly in getting emergency printing allocated to Detroit, but my membership feel that more of it could be turned over to Detroit if it were allocated to a particular zone within this section, because from our personal point of view, we cannot compete in price, with labor, and geographical position; with some of the other cities. We can render better service if a certain amount of printing is allowed for Detroit without this numerous competition and would be better able to serve the purpose that is called for.

(Statements submitted by Jerome W. Shore, Midwest representative of the United Office and Professional Workers of America, Congress of Industrial Organizations, and William F. Wild, president, Drake Printing Co., follow:)

STATEMENT SUBMITTED BY JEROME W. SHORE, MIDWEST REPRESENTATIVE OF THE UNITED OFFICE AND PROFESSIONAL WORKERS OF AMERICA, CONGRESS OF INDUSTRIAL ORGANIZATIONS

To the Congressional Committee Set Up To Conduct a Study and Survey of the National Defense Program in Its Relation to Small Business of the United States:

Mr. Chairman, should the American people awaken tomorrow morning and learn from their local newspapers that 5,000 American soldiers were captured by the Japanese in the Phillipines, think, for a moment of what a demoralizing effect this would have upon our Nation. Five thousand soldiers interned and put out of commission for the duration of this war would be considered a sizable loss to the allied fighting cause at this time when every man counts.

Isn't there a similarity, then, in the Detroit situation where there are approximately 200,000 workers unemployed due directly to the conversion program of the automobile plants, and 5,000 laid off in the graphic arts field, which has been

dependent upon the natural business relationships with the automobile manufacturers. Is this the practical way of using our human and productive resources in the national defense effort?

A great deal has been said about the problem of the printers and those in allied trades. We speak for another branch, the direct mail section of the graphic arts industries.

In Detroit where the main office of the R. L. Polk & Co. is located, this firm has been forced to lay off upward of 800 employees because of the sharp curtailment in automobile advertising. Most of these are women, who are finding it terribly difficult to locate other jobs. This situation also exists in the Fred Prince & Co. where some 300 have been indefinitely laid off. Other direct mail houses have also felt the cut. These people have been laid off and to date their future perspective is pretty dark. Yet there is a need for direct mail services by the Government as there is a need for adequate printing facilities. A need which the Government has acknowledged.

Our job (which is the job of employer and employee alike) and a major purpose for which this hearing has been held, is to ease the problems of small business in such a way as to provide their maximum support toward winning this war. In total warfare there must be total participation of the citizens of the country. There must be total production; there must be the most complete and accurate integration of all aspects of our national economy so that each can give his maximum toward the defeat of the enemy.

To win this war our President has stated that we must maintain the greatest measure of production. One of the ways of attaining that goal is by utilizing every possible facility and by giving real consideration to some of the human problems which arise naturally out of the dislocation of industry and which will lead, if allowed to go unsolved, to a smashing of civilian morale.

We are not in all honesty fulfilling the stated objectives and policies of our country unless something is done to correct the situation which exists in Detroit. In my opinion, there is no need for the local printers to be forced to turn the lock in their door for the duration when the Government Printing Office is so badly in need of printing service. There is no need for 5,000 employees who were formerly employed in the advertising and allied service industries to be walking the streets of Detroit in search of employment when it is possible for direct mail houses to be utilized by the Government in their efforts to either collect taxes, sell defense bonds and stamps, mail instructions to citizens on air raid conduct, and many other things. There is no need for binderies in Detroit which are capable of small assembly jobs to work on a week to week basis not knowing when they will be forced to discontinue their business.

At the same time, we have an additional responsibility. We must give some consideration to the future. We must see that the dislocation which is brought on now does not create a "ghost industry" after the war is over and things revert to normal.

All out production will win the war. Small business can and is willing to do its share. The Detroit graphic arts industry specifically is anxious to go ahead. It's up to the Government to pull the switch.

DRAKE PRINTING CO.,
Detroit, Mich., March 4, 1942.

To the Honorable WRIGHT PATMAN and Associates:

The writer of this letter, president of the Drake Printing Co., has been actively interested in the printing business in Detroit for the past 23 years. In that time his interest has been as salesman and then for the last 13 years president of the Drake Printing Co.

In those 23 years of experience no situation has existed at any time as is present today in Detroit. In prior depressions and shortages of business it has always been possible to create a demand for printing because the prospect could buy the product. Today, the product cannot be sold because of Government action. That is point No. 1. Fact No. 2 is that printing presses are, unfortunately, not convertible to other types of work as are the vast majority of machine tools. Were they so convertible the present condition would not exist.

With this crisis of no market and inconvertibility of equipment the printers must look to the Government for printing business. When they do so they face a condition of bureaucratic chaos. This writer's experience with governmental agencies that procure printing, principally the Public Printer, Mr. Geigengack

or, rather, his staff, has been most unsatisfactory. The Drake Printing Co. has endeavored to obtain business from the Government and has received no cooperation, whatsoever. After a telephone conversation with the Public Printer a questionnaire was received by us, filled out and mailed to the Public Printer. Six months later a letter is received from that Office remarking that it had been brought to the Public Printer's attention that we desired to quote on Government printing, therefore a questionnaire was enclosed; the self same questionnaire that had been filled out and sent in 6 months before. A fine commentary on their efficiency.

The Drake Printing Co. printed for the State of Michigan 22 out of a total of 25 Selective Service forms, all obtained in open competition. The office of the Public Printer was aware of this; yet, when bids were requested on the second printing of Selective Service forms the Drake Printing Co. was ignored. The reason assigned by Mr. Ritter of the Public Printer's office for this act was as stupid and utterly senseless as human conduct could be and the writer of this letter would appreciate an opportunity to face Mr. Ritter before this committee in Washington and demonstrate to the satisfaction of the committee that in this one person at least the Public Printer has a man of utter incompetence. The Drake Printing Co., through the writer wrote to the Public Printer the most vitriolic letter that has ever gone out of their offices. No reply was ever received. Instead, the Drake Printing Co. was allowed to quote on eight forms and asked to put into the price of the forms the freight both from Washington to Detroit and from Detroit to Washington. For the purpose of the record this ran from 20 to 30 percent of the cost of the forms which would be an insurmountable penalty on a competitive basis. On such a footing no printer in Detroit could get a competitive job from the Public Printer's office.

In addition to this penalty the Public Printer has arrogated to himself the right to say on what size presses jobs shall be run regardless of whether or not those presses are the most economical to use. The Drake Printing Co. requests that your honorable body take such steps as are necessary to insure the printers of Detroit the right to bid on Government work on an equal footing with printers located in Philadelphia, Baltimore, or even Washington itself. We should not be penalized by freight costs nor should we be told that a printed article 3 by 5 inches must be run on a press larger than 32 by 42 inches. Such rules as this last are utter drivel.

It is needless to say that all the foregoing is an actual expression of feeling in our plant which runs from myself as chief executive to the apprentice pressmen. We pray that you will take such steps as are necessary to relieve us from this intolerable injustice.

Respectfully yours,

WM. F. WILD,
President, Drake Printing Co.

The CHAIRMAN. Thank you very much. The Chair wishes to make this announcement that all persons that testified today that wish to file a statement will be privileged to do so, and those that testified that wish to extend their remarks will also be privileged to do so. You may write to the clerk of the committee, and they will be glad to forward those copies on to you if they have been revised, and on behalf of the committee, we wish to thank you gentlemen for the fine spirit and the manner in which we have been received here in the city of Detroit. We sympathize with the problems you are confronted with at the present time, and we want you to know we are going to try to do all we possibly can to eliminate the problems you are going to be confronted with in the future. Thank you. [Applause.]

Mr. WINTER. Mr. Chairman, I can't let this day go by without telling you, as chairman of our committee; our gratitude for coming here and listening to all of this detail. You have been most gracious, and you have been most helpful. We hope something will come of it. Even if nothing does come of this hearing, I assure you that we in the printing industry in Detroit have received some benefit from this proceeding. [Applause.]

STATEMENT OF EDW. H. ZERBE, PRESIDENT OF THE BURKHARDT CO.

As a matter of introduction: My name is Edward H. Zerbe, president of the Burkhardt Co., 545 West Larned Street, Detroit, Mich. We are pamphlet binders and general bookbinders to the printing trade and graphic arts of Detroit and vicinity. In addition we are manufacturers of all kinds of loose leaf binders, display kits, portfolios, brief cases, and celluloid indexes.

I was privileged 2 weeks ago to hear the testimony presented at the afternoon session of the House of Representatives' Select Committee on Small Business at the Statler Hotel, Detroit. Naturally, I was especially interested in the report of Mr. Wm. Sage who represented the bookbinders of Detroit. Mr. Sage spoke in the main about pamphlet bindery work and he put it very mildly when he complained about the utter lack of pamphlet bindery work in Detroit since the death of the automobile industry.

The greater part of pamphlet work of the Detroit bookbinders has always come from the printer. Since the majority of our printer customers are slack or almost without business, the bookbinder is likewise and is either without work or has had to shift into other lines where possible. The pamphlet binders of Detroit like the printers, engravers, and others of the graphic arts, in order to better serve the dynamic automobile industry, had all equipped their individual plants with high production machinery. A great part of this machinery is now idle and wants to be put back to work.

More could be said about the pamphlet binding business, but I would also like to speak for bookbinders of Detroit who have hard-binding departments. By hard binding we mean, the binding of loose-leaf binders, bound books such as city directories, catalogs, manuals, price books, data books, and also portfolios, presentation and display binders, etc. These bookbinders rely mainly upon the automobile companies and those serving them for this type of business.

The sales, sales promotion, and advertising departments of the larger companies in the automotive business were extremely large buyers of all kinds of loose-leaf binders, indexes, and sheetwork for the binders. The manufacture and the coordination required to produce these automobile manuals, price books, data books, and catalogs is highly specialized business in which the Detroit bookbinders have become very proficient. This work has all ceased now and unless some of the Government and defense printing and binding is allocated to the Detroit area, it will work a severe hardship on the industry and no doubt put some of the companies out of business entirely.

There is one more thing which I would like to mention at this time, if I am permitted to do so. Speaking for the Burkhardt Co., I would like to state that we have used every effort to get Government defense business. We have been only partially successful and the only time we are awarded contracts is when we quote below our standard costs.

Since January 1 of this year we have quoted on approximately \$1,400,000 worth of Government business and to date we have received a little over \$6,000 worth of orders. About 60 percent of the above large figure is comprised of leather brief cases and leather portfolios of which we did not receive a single order. The balance is comprised of various styles of loose-leaf binders and a large quantity of indexes. The six or seven orders which we have received, since January 1, totaling approximately \$6,300 are for various types of canvas and imitation leather loose-leaf binders, which we are well equipped to manufacture.

Upon inquiry to the various Government agencies, we find that our prices are invariably higher than competitors from other parts of the country. This, no doubt, is caused by the higher wage brackets in Detroit, which naturally puts us at a distinct disadvantage. We think that there should be some definite consideration given to wage differentials in the various areas. Otherwise we can see an end to our business if, in the future, we are compelled to depend entirely upon defense business we get from the Government.

Up to the present time, we have been fortunate enough to get some indirect defense orders and also a little of what is left of civilian business. This has kept us going and has also enabled us to quote low prices on Government defense work. These low prices would not be possible without profitable civilian business in the plant. We are, therefore, very much concerned about the near future when it will be defense business or nothing.

We earnestly regret your consideration for relief of the above conditions.

(The following communications have been received by the committee:)

PEERLESS PRINTING CO.,
Paris, Tex., February 25, 1942.

HON. WRIGHT PATMAN, M. C.,
Washington, D. C.

DEAR MR. PATMAN: The bulletin covering meeting of the Select Committee on Small Business, part 12, was very interesting and illuminating. Would like to add my own 2 cents worth of personal comment on the subject, for no particular reason.

In the first place, the public is asked to conserve all materials which can be used in defense work. The War Department can commandeer all the printing plants in various districts to produce its needs, without installing printing plants, and get the job done without either taking men who would be better used elsewhere or keeping machinery manufacturers making printing equipment when they could be doing something else.

Frankly, I believe printing machinery should be off the market for the duration, since all needs could be supplied from the various stocks of used and rebuilt equipment available. Allow only repair and replacement parts to be made, for both the Government and the civilian demand. This thing will end one day, and there will be a great overequipment of both classes of plants unless there is a curb set.

Take my own personal interest in the matter: This plant is at the disposal of the Government either in full or part time, on such terms as they may consider fair to the Government—not to us—and I feel sure that many other plants in all districts would be tendered if wanted. It is not a question of making profits with any of us now; if the Government can and will use us, we are good enough Americans to volunteer our plants where many of us are physically unable to volunteer our personal services in the combat forces. Taking advantage of this would limit the steel and man-hours used by the machinery makers to more vital work, and would avoid the aftermath of the Government buying many thousands of machines which would be useless after the emergency has passed, and which would be dumped at the taxpayers' cost.

As an instance of dumping, the Narcotics Hospital near Fort Worth now has a Kelly press in one of their hallways, and this is the only piece of printing equipment they have. It would cost a civilian around \$4,000 to install one of these machines, so it is not a small item in itself. This press was shipped to them from Atlanta, Ga., so we are told.

Another instance of note is the printing plant used by the district engineer office, Denison District. They do not call it a printing plant, because that would require a special authorization for its purchase and installation. They camouflage it by calling it "duplicating equipment," but it consists not only of the usual mimeograph and multigraph machines, but they are using a number of multilith offset-lithograph presses. Also, they have the necessary paper cutters, perforators, punches and drills, wire stitchers, etc., necessary to operate the plant, all items to be found in every well-ordered print shop, and sold only as printing machinery by printing machinery dealers. An investigation of this phase of the War Department activities will show you that they are evading the law by using another name for printing equipment where they can do so, in order to go ahead without congressional sanction. The shell-loading plant at Texarkana is now figuring on similar installation. This may be justifiable because of the peculiar situation there relative to the type of work handled.

But much of the forms used are not confidential in nature, and a basic price for each could be readily determined by the Government Printing Office or other agency, and any local printer would be patriotic enough to handle the work at Government costs. Where items could be bought at established costs without delay or installation of expensive equipment, it would seem better to do so than to put in the equipment for only a comparative brief interval and then let it rust out in the hallway of some institution which has no need for it, as in the instance cited heretofore.

In line with testimony before your committee, I am sending a folder just received from Detroit, showing what has happened to one firm operating two plants there and at Flint, Mich. These plants can be had for far less than original cost, will serve the need now (if there is such need for Government-operated plants), and could be junked at the end of the emergency at far less cost to all of us than to buy new plants.

There is much manpower available all over the country, men and women unfit for military duty under present standards, who could be used along with these plants. The changing condition is already reducing the hours of employment available to them in private work, but they can be used in private plants operated under some set-up of the kind I have suggested. If the War Department operates its own plants in every Army camp, this vast reservoir of labor will be untouched, men will be without employment, and younger and more active men will be withdrawn from the more active war activities to operate the Army plants.

It just does not add up and make sense; figured from any sound business angle, the argument is all in favor of using existing establishments, even if immediate costs should run even slightly higher than Government Printing Office costs. And that they would is debatable. I would unhesitatingly take the opportunity of duplicating any of their costs on similar quantities on small forms, save that the paper costs might run higher due to their volume purchases.

I feel sure the printers of the entire country appreciate your interest and efforts in this matter, and I trust something can be worked out whereby the small printer can have a part in defense without adding anything to the Government expense. In that way, he can also do his part in buying Defense bonds. If his business is all plowed up in civilian lines, and the Government competes in the defense work, then he is going to have slim pickings and maybe will have to offer still other plants for sale as they are doing in the automotive centers now.

Yours very truly,

J. J. CUNNINGHAM,
PEERLESS PRINTING CO.

BROWN-BLODGETT Co.,
St. Paul, Minn., February 4, 1942.

HOUSE COMMITTEE ON SMALL BUSINESS,
Washington, D. C.

GENTLEMEN: As a small business concern not engaged in defense production, may I present some considerations which are very vital to ourselves, to our employees whose jobs are in jeopardy, and even to the public welfare.

Constantly out of Washington come threats that concerns not engaged in defense work must fold up, and their employees will be absorbed in defense work.

Our business is printing and lithographing. We supply banks and business houses throughout the Northwest with checks, drafts, and a multitude of operating forms. And which they will need as long as they are open for business.

Also, we specialize in a national way in direct-mail advertising material, mainly for dairy and food industries. The purpose of this is to educate the public to use food of nutritional value. This, I take it, is sympathetic with the aim of the Government to increase public health.

Banks and business concerns outside the pale of defense work must continue to supply civilian needs, however curtailed. Despite the opinions often expressed in Washington, often from high sources, a certain amount of nondefense business must go on. Civilian needs cannot be wiped out.

Our advertising material for the ice cream and other food industries is important from a defense standpoint. The Government is interested in building health, not only on the part of civilians, but also of future military enrollees, which, incidentally, did not show up very well in physical qualifications of selectees.

Furthermore, the Government is anxious to increase agricultural production and civilian use of the products of the farmer. Thus our work bears directly on the interests of the agricultural segment of the country.

In our service for concerns other than food manufacturers and distributors, we print sales stimulating material for manufacturers who are not in the defense production field. Thus we increase their sales, increase their employment and social security taxes, and taxes on their profit which the Government sorely needs.

We might point, also, to the obvious facts that the future of the industrial life of the country demands that nondefense concerns be kept in business and their investments not destroyed.

To pay for the enormous expenditures for war material the Government surely needs the income taxes which we pay and which tens of thousands of similarly "small businesses" pay. Surely the Government does not seriously desire to kill the goose that lays the golden eggs.

We might add that our principals and our employees are buying Defense bonds on a pay-roll deduction basis, and have also subscribed twice to the Red Cross. Put them out of their jobs, and this much is lost to the Government.

We cannot make guns and airplanes with printing and lithographing presses or bindery machinery.

Our employees, including our road salesmen, are largely men and women who have been with us for many years, a considerable proportion of them beyond 50 years of age. It is difficult to see how, with their training, and knowing only one trade, they can be turned over to making precision instruments.

We would gladly undertake defense contracts or subcontracts, but have neither equipment nor experience to make bids. As for Government printing, our plant is too small to compete with eastern concerns who can handle this work on a competitive basis, and do have advantages by way of freight rates.

In the circumstances we are completely at a loss to know how we can help produce armaments. And, if, as the warning is often expressed in Washington—often thoughtless, we sometimes think—that every concern who can't produce munitions must "get out of the way," what are the concerns like us, taxpayers and employers of labor largely unfit for Government contracts, to do?

In a word, who is going to make up for the taxes which nondense concerns are paying? Must civilian needs such as business forms, have no source of supply? Must our employees, when we "get out of the way," become public charges? Must the food industry stop counseling women and children, and the aged, on proper diet? Must our investment be wiped out? How are our personnel and employees to buy Defense bonds and stamps if their income is stopped? Frankly, we cannot see how we are in anybody's way, in supplying civilian needs and advertising material which creates sales for the food and dairy industries and nondense concerns. We yield to no one in patriotism, or in a desire to help the great cause in which we are engaged.

We hear a great deal about the Government's concern for "small business." But always about small business which can take subcontracts or prime contracts for war material. Not a word about the nondense concerns who will always be with us.

Isn't it about time to give some consideration for the small businesses outside of the defense-production category, who still have pay rolls, business investments, and who pay taxes and buy Government securities?

I ask you.

Yours very truly,

H. A. BLODGETT, *President.*

THE TRAVERAULD PRESS, INC.,
New York City, January 26, 1942.

SMALL BUSINESS HOUSE COMMITTEE,
Washington, D. C.

GENTLEMEN: We have a small printing plant and bindery employing 8 persons at present, and are unable to get work to keep going.

Sometime ago we filed a questionnaire with the Government Printing Office, but have had no response whatever.

We are writing, to inquire if there is any way possible for us to get some work to do, or if you could advise us of some means by which we would be able to keep our plant operating.

Any suggestion you might offer will be greatly appreciated.

Thank you.

Yours truly,

THE TRAVERAULD PRESS, INC.
T. ROHRS, *President.*

The CHAIRMAN. Without objection the committee will recess subject to the call of the chairman.

(Whereupon, at 4 p. m., the committee recessed, subject to call.)

SMALL BUSINESS IN THE UNITED STATES

MONDAY, MARCH 9, 1942

**SELECT COMMITTEE TO CONDUCT A STUDY AND
INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM IN
ITS RELATION TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.**

The select committee met, pursuant to notice, at 10:30 a. m. in the caucus room, old House of Representatives Office Building, Hon. Wright Patman (Texas), chairman, presiding.

Present: Representatives Patman (Texas), chairman; Alfred L. Bulwinkle (North Carolina), William J. Fitzgerald (Connecticut), Charles A. Halleck (Indiana), and Walter C. Ploeser (Missouri).

Also present: Holmes Baldrige, Frank H. Elmore, Jr., Manuel M. Gorman, and Frank W. Gaines, Jr., representing the Antitrust Division, Department of Justice.

The CHAIRMAN. The committee will come to order.

Mr. Comer, suppose you give us your name and official position and address to the reporter, please.

Mr. COMER. George P. Comer, economic advisor, Antitrust Division, Department of Justice.

The CHAIRMAN. Mr. Baldrige, suppose you identify yourself also.

Mr. BALDRIDGE. Holmes Baldrige, Special Assistant to the Attorney General, Antitrust Division, Department of Justice.

The CHAIRMAN. Would you like to make a statement preceding Mr. Comer's testimony, Mr. Baldrige? You can keep your seat if you like, or stand up if you desire.

**STATEMENT OF HOLMES BALDRIDGE, SPECIAL ASSISTANT TO
THE ATTORNEY GENERAL, ANTITRUST DIVISION, DEPARTMENT OF JUSTICE**

Mr. BALDRIDGE. Mr. Chairman, and members of the committee, Recent litigation under the antitrust laws of the State of Missouri against fire-insurance companies indicates that rates for fire insurance are, and for some time have been, exceedingly high and inflexible. Since fire insurance is a necessity for all kinds of businesses, particularly small businesses, the attorney general of the State of Missouri, Mr. McKittrick, thought that the matter was of sufficient public interest to ask for a hearing before this committee.

The general subject of fire insurance apparently has never been intensively studied by any organization representing the Federal Government.

As an introduction to this study we desire to present some statistical studies relating to the financial records of fire-insurance com-

panies. This material is not yet complete, but may prove useful to the committee in its study of the fire-insurance problem.

This will be followed by a statement from Mr. McKittrick, attorney general of the State of Missouri. Mr. McKittrick's statement will include a brief history of the Missouri litigation against fire-insurance companies operating in that State, an explanation of the general functional organizations of the fire-insurance industry, the manner in which rates are developed by fire-insurance companies, and the industry in general, and the methods employed to insure uniformity of those rates throughout the country and over a period of years.

Mr. Comer, chief economist of the Antitrust Division, has prepared some statistical data which, if the committee please, would be enlightening, and we would like to present it at this time.

The CHAIRMAN. You may proceed, Mr. Comer.

STATEMENT OF GEORGE P. COMER, CHIEF ECONOMIST, ANTI-TRUST DIVISION, DEPARTMENT OF JUSTICE

Mr. BALDRIDGE. Mr. Comer, what is the general nature of your work as economist adviser and chief economist of the Antitrust Division of the Department of Justice?

Mr. COMER. It is to work primarily on the problems of interest to the Antitrust Division with respects to restraints of trade, and to see what broad fields probably should be examined by the staff of the Division. Recently, special attention has been given to the question of the small businessman by the Antitrust Division; therefore, a great deal of all of our work, including my own, has been slanted in that direction because we find in almost every industry there are a few large business units that seem to have competitive advantage over the small man; and to the extent that those units get together in restraint of trade, then, the pressure is all the greater on the small man. That is true in this insurance field, apparently—as well as many others, and that is the reason that I have examined to some extent this insurance matter.

Mr. BALDRIDGE. As a matter of your duties, do you make industry studies?

Mr. COMER. Yes; regularly—both from the point of view of the record available in Washington and later to be followed up in the field. In this particular case, this is the story of the record immediately available in Washington.

Mr. BALDRIDGE. Have you prepared, Mr. Comer, in exhibit form a statistical study embracing the general financial statement of fire-insurance companies operating in this country?

Mr. COMER. Yes; that has been prepared from two points of view; one, the general United States' picture as reported by the Department of Commerce in regard to the assets, the capitalization, the earnings, the premiums paid, and the losses of practically all of the fire-insurance companies, amounting to 500 to 600. That is a broad general picture which I will first present, and then to the question of the big business angle. I have listed the 15 largest fire-insurance companies in the United States out of Moody's book on Banks, Insurance, Real Estate, and Investment Trusts in order to see the part that the 15 big ones are playing in the 500 or 600 that are reported by the Census.

Mr. BALDRIDGE. Have you prepared this for the committee in exhibit form?

Mr. COMER. Yes; I have.

Mr. BALDRIDGE. Will you pass the copies around, please?

Mr. COMER. They are in two tables. Shall I retain the original for the record?

Mr. BALDRIDGE. Please pass the original to the reporter, and have it marked as exhibit No. 1.

The CHAIRMAN. It will be marked as exhibit No. 1.

(The documents referred to were marked "Exhibit No. 1" and read as follows:)

EXHIBIT No. 1

TABLE 1.—Fire and marine insurance,¹ stock and mutual companies

[Thousands of dollars]

Year	Number of companies	Total assets	Capital and surplus	Total income	Losses paid	Difference between income and losses	Dividends	Ratio of losses paid to total income	Ratio of dividends to losses paid
								Percent	Percent
1929	931	\$3,074,057	\$1,676,492	\$1,479,222	\$541,801	\$395,421	\$118,648	37.7	21.9
1930	904	2,834,708	1,825,970	1,217,705	543,451	634,244	127,077	47.9	21.8
1931	903	2,610,853	1,220,694	1,034,413	529,076	559,337	119,991	45.6	22.7
1932	683	2,444,357	1,077,076	1,004,049	445,949	557,100	104,356	44.5	23.3
1933	672	2,229,600	1,137,325	831,942	324,510	504,472	93,720	39.5	29.5
1934	726	2,273,810	1,302,867	910,047	331,371	578,676	107,951	36.4	35.6
1935	734	2,553,122	1,549,591	954,073	295,955	658,107	124,340	31.0	42.0
1936	543	2,815,293	1,597,031	1,021,034	371,744	649,324	113,025	36.4	30.4
1937	561	2,630,815	1,478,199	1,092,907	373,779	719,123	114,990	34.2	30.8
1938	566	2,751,313	1,548,962	1,034,011	397,310	636,721	127,225	33.4	32.0

¹ Does not include Lloyd's.² Capital stock \$333,613,000 surplus \$1,255,379,000.

Source: Statistical Abstract of the United States, 1940.

TABLE 2.—Financial record of large insurance companies, 1939

[As of Dec. 31, 1939]

	Aetna Insurance Co. (Hartford, Conn.)	American Insurance Co. (Newark, N. J.)	Continental Insurance Co. (New York)	Fidelity-Phenix Fire Insurance Co. (New York)	Fire Association of Philadelphia	Fireman's Fund Insurance Co. (San Francisco)	Great American Insurance Co. (New York)	Hartford Fire Insurance Co.
Total assets	\$55,374,292	\$30,732,823	\$99,441,215	\$77,092,581	\$23,463,843	\$42,134,785	\$49,963,642	\$116,033,221
Capital and surplus	\$25,589,892	\$14,028,238	\$71,075,028	\$55,254,983	\$12,214,569	\$23,456,502	\$33,831,304	\$68,776,267
Net premiums earned	\$22,664,000	\$13,323,000	\$19,094,000	\$15,562,000	\$8,061,465	\$15,732,000	\$12,864,000	\$36,443,000
Losses incurred	\$10,225,000	\$6,340,000	\$8,697,000	\$7,455,000	\$3,680,401	\$7,329,000	\$5,869,000	\$16,988,000
Underwriters' expense	\$11,656,000	\$6,349,000	\$8,818,000	\$7,165,000	\$4,289,924	\$6,992,000	\$6,388,000	\$17,433,000

Loss ratio (percent).....	45.12	47.59	45.55	47.90	45.65	46.59	45.62	46.61
Earnings ¹	\$2,425,000	\$1,307,000	\$5,637,000	\$4,181,000	\$847,954	\$2,771,000	\$2,301,000	\$5,275,000
Dividends paid.....	\$1,350,000	\$802,000	\$4,000,000	\$3,000,000	\$499,915	\$1,200,000	\$2,486,000	\$3,000,000
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Percentage earnings to capital and surplus.....	9.5	8.9	7.9	7.6	6.9	11.5	6.8	7.7
Percentage earnings to losses incurred.....	23.7	20.6	64.8	56.1	23.0	37.8	39.2	31.1
Percentage dividends to losses incurred.....	13.2	12.6	40.0	40.2	13.6	16.4	42.4	17.7

	Home Insurance Co. of New York	Insurance Co. of North America (Philadelphia)	National Fire Insurance Co. of Hartford	Phoenix Insurance Co. (Hartford, Conn.)	St. Paul Fire & Marine Insurance Co. (St. Paul)	Springfield Fire & Marine Insurance Co. (Springfield, Mass.)	United States Fire Insurance Co. (New York)	Total 15 companies ²
Total assets.....	\$123,056,098	\$111,121,152	\$51,977,123	\$64,190,352	\$43,680,712	\$35,005,835	\$34,544,933	\$658,712,667
Capital and surplus.....	\$65,371,518	\$77,260,141	\$27,414,530	\$45,661,976	\$29,867,435	\$19,919,181	\$22,008,203	\$592,409,767
Net premiums earned.....	\$53,100,000	\$24,082,000	\$14,267,000	\$8,810,000	\$11,737,000	\$12,480,000	\$9,760,000	\$277,979,465
Losses incurred.....	\$26,944,000	\$10,403,000	\$6,729,000	\$3,710,000	\$5,516,000	\$5,860,000	\$4,200,000	\$129,981,401
Underwriters' expense.....	\$26,352,000	\$12,602,000	\$7,407,000	\$4,481,000	\$5,508,000	\$6,069,000	\$4,792,000	\$136,511,924
Loss ratio (percent).....	50.74	43.19	47.16	42.01	47.00	47.00	43.03	46.75
Earnings ¹	\$4,328,000	\$4,643,000	\$1,467,000	\$2,437,000	\$2,274,000	\$1,588,000	\$1,921,000	\$43,402,954
Dividends paid.....	\$4,800,000	\$3,000,000	\$1,000,000	\$1,800,000	\$1,280,000	\$950,000	\$1,000,000	\$30,167,915
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Percentage earnings to capital and surplus.....	6.6	6.0	5.4	5.3	7.6	8.0	8.7	7.3
Percentage earnings to losses incurred.....	16.1	44.6	21.8	65.7	41.2	27.1	45.7	33.4
Percentage dividends to losses incurred.....	17.8	28.8	14.9	48.5	23.2	16.2	23.8	23.2

Total premiums in force, 1939, \$494,061,000; less marine, \$92,420,000; fire, etc., \$401,641,000; percentage fire to total, 81.3.

¹ Includes underwriting gain, and net interest earned.

² Of the total premiums in force in 1939, amounting to \$494,061,000, 81.3 percent or \$401,641,000 was for fire and related hazards, and \$92,420,000 was for marine and inland navigation amounting to 18.7 percent of the total.

³ Capital stock \$104,244,000; surplus, \$488,166,000.

Source: Moody's Manual of Investments, 1940.

Mr. PLOESER. Are you taking into consideration the mutual and reciprocal companies as well as the stock?

Mr. COMER. The first table, table No. 1, represents stock and mutual companies because they are all consolidated. The second table represents the individual companies.

Mr. PLOESER. What do you mean by "consolidated"?

Mr. COMER. In the statistical reports.

Mr. PLOESER. The statistics are consolidated?

Mr. COMER. Yes, the statistics are consolidated.

The second table is company by company.

Mr. BALDRIDGE. Will you explain briefly the information that appears on table 1 of exhibit No. 1?

Mr. COMER. The first significant column perhaps of table 1 represents the 10-year period from 1929 through 1938. Now, a little later it will be seen that that long swing will become significant from the point of view of regularity of earnings.

The next column is the number of companies which shows an apparent drift toward consolidation because in 1929, 931 were reporting to the Department of Commerce their operations and 1938, 10 years later, only 565 were reporting.

Mr. BALDRIDGE. To whom were these reports made?

Mr. COMER. The reports were made to the Bureau of the Census.

Mr. PLOESER. Are you going to give us the reason why there is this drift toward consolidation?

Mr. COMER. I don't think that I have specific information from the field for the committee that would justify me in giving definite reasons for consolidation.

The next column represents the total assets. This is a big business. In 1938 it was \$2,751,313,000, which is rather typical of the whole drift. In 1929 it was \$3,084,057,000.

Mr. BULWINKLE. Just a minute. The number of companies in 1929 was 931?

Mr. COMER. Yes, sir.

Mr. BULWINKLE. The number in 1938 was 565?

Mr. COMER. Yes, sir.

Mr. BULWINKLE. The assets in 1929 were \$3,084,057,000 and in 1938 they were \$2,751,313,000.

Mr. COMER. Yes.

Mr. BULWINKLE. There was a decrease in assets of nearly \$1,000,000,000.

The CHAIRMAN. Less than half a billion.

Mr. COMER. A decrease of \$250,000,000.

Mr. BULWINKLE. Well, how do you account for that?

Mr. COMER. The depression.

Mr. BULWINKLE. Companies went out of existence entirely?

Mr. COMER. No; the value of their investments decreased.

Mr. BULWINKLE. That is what I wanted to find out.

Mr. COMER. The capital and surplus in round figures are \$1,588,992,000 in 1938.

Mr. BALDRIDGE. Can you divide that between capital and surplus?

Mr. COMER. For the year 1938, I made the division, and of that figure the capital stock was only \$333,613,000 whereas the surplus was \$1,255,379,000.

Now, that figure, as we shall see a little later, has an important bearing upon this problem because as the committee knows, surpluses are an accumulation of profits that have been left in the business. Therefore, their capital investments are not very large originally, but their surpluses are about four times capital.

Mr. PLOESER. What do you mean by the statement "Their capital investment is not very large"?

Mr. COMER. Their initial capital investment is \$333,613,000; and on top of that there is accumulated out of profits—that is where the surplus comes from. There is accumulated out of profits—

Mr. PLOESER (interposing). Surplus does not always come from profits, and if you will read the history of some of these companies, you will find many surpluses are contributed. You haven't read it very carefully.

Mr. COMER. At any rate the surplus figure is \$1,255,379,000, but surpluses are not always, of course, out of profits. It depends on how you define profits.

Mr. PLOESER. That is right.

Mr. COMER. The total income in 1933 was \$1,034,031,000 and the losses paid in that year were \$397,310,000 leaving a difference between total income and the losses paid of \$636,721,000, or the losses were only 38.4 percent of total income.

Mr. PLOESER. How much of that excess income went to allocations for reserve for unearned premiums and how much went for the allocation of the reserve for undetermined losses?

Mr. COMER. I can't answer offhand from the table.

Mr. PLOESER. But your chart does not show accurately, unless you show those figures; because when you write a term insurance policy, you have got to put something away for the future. You don't operate sound business the way you operate the Government.

Mr. COMER. As I say, I can't answer those questions immediately from this table. The main over-all picture that I should like to emphasize is that the losses paid year after year are running in the last 5 years, 36.4 percent, 31 percent, 36.4 percent, 34.2 percent and 38.4 percent of the total income of the companies.

Mr. PLOESER. What is that average?

Mr. COMER. The 5-year average, I haven't done the arithmetic on it; but you will see it is not far from 36 percent.

The last column is the ratio of dividends to losses paid. The dividends to losses paid in the last 5 years, 32.6, 42.0, 30.4, 30.8, and 32.0; but I call your attention to the fact that the dividends paid are only a part of the profits of the companies. To the extent that they leave profits in and throw them to the surplus account, there is an additional profit record that is not reflected in the dividend figures. As we have seen before, over the long period of years, this surplus has accumulated to be about four times the capital invested, and to the extent that that does represent an accumulation out of earnings it represents a profit not reflected in the dividends paid. There is another item which we have found to be of great importance among large corporations—namely, the extent to which salaries charged to expense may represent in part profits returned to the management. Now, that figure would require a break-down to see whether as a rule the salaries could be considered a profit item. In the tobacco indus-

try, for example, it is known that some of the men receive considerably more than \$1,000,000 a year salary, but, as a matter of fact, a large part of that is profits returned to the management.

Mr. PLOESER. You are talking about the insurance industry, and not necessarily the tobacco industry. Do you know of any salaries that size in the fire insurance business?

Mr. COMER. No.

Mr. PLOESER. Do you know of any half that size?

Mr. COMER. As I say, there is an item that may or may not be involved in expense that properly ought to be reflected to profits, but it is entirely—

Mr. PLOESER (interposing). You make the implication that such a condition does exist. What do you know in fact?

Mr. COMER. We have rarely found in the examination of the large companies that that condition does not exist.

Mr. PLOESER. Does not?

Mr. COMER. Rarely ever.

Mr. PLOESER. What did you find that did exist?

Mr. COMER. We found that bonuses and premiums were included in salaries and charged to cost in many cases.

Mr. PLOESER. That is right?

Mr. COMER. Yes.

Mr. PLOESER. What is the extent of it?

You are talking about \$1,000,000 salaries in the tobacco industry. What is the largest salary found in the fire insurance business?

Mr. COMER. We have not made that field investigation.

Mr. BALDRIDGE. The ratio of losses to total income is indicated on table No. 1 as approximately 38 percent, that is, for the year 1938, is that correct?

Mr. COMER. Yes.

Mr. BALDRIDGE. What significance is to be attached to this percentage relationship between losses of total income?

Mr. COMER. In view of the fact that over the 10-year period there has been a fair, in fact an unusual record of earnings as compared with industry as a whole, this ratio of losses paid to income is so low as to indicate that the premiums could have been considerably less and still have shown an earning record somewhere near in line with American industry as a whole.

Mr. PLOESER. What happened to the rest of the premium? You have 36 percent here allocated to losses paid?

Mr. COMER. Yes.

Mr. PLOESER. What happened to the rest of the premium?

Mr. COMER. It went for expenses. It went for transfer to surplus and for that unknown quantity of salaries, and it went for dividends.

Mr. HALLECK. The Government gets a pretty good chunk of that going to surplus?

Mr. COMER. The income tax to the Government would be taken out before there would be a transfer to surplus. All of these represent, as I understand it, the earnings after the Government has taken its share. If you would take the total figures, before the Government took its share of those net earnings, they would be much larger, but you do not make transfers to surplus or dividends until you have paid your income tax.

Mr. HALLECK. Having regard to the percentages as you started to figure them of income, or of losses to income, do you know anything about the percentage of income that was going to the Federal Government for taxation under the surplus profits tax?

Mr. COMER. It is not reflected here. That is a case of company by company examination.

The CHAIRMAN. I wonder, gentlemen—I am just like you gentlemen—I would like to ask some questions, also; but I wonder if we couldn't refrain until he finishes the general statement, and we can make notes of things that we want to cover.

Mr. PLOESER. I understood that he was explaining the chart and there are some things that could better be explained if the questions are entered at the point of explanation.

Mr. COMER. It doesn't interrupt me.

The CHAIRMAN. I wouldn't insist upon it; but I wonder if we couldn't reduce our questions to a minimum so we could get through and ask him anything that we wanted to.

Mr. PLOESER. You have got \$1 premium. You determined that 36 cents of that is allocated to losses over a 5-year average?

Mr. COMER. Yes.

Mr. PLOESER. I took your figures.

Mr. COMER. 38.4 in 1938 is the figure.

Mr. PLOESER. We are taking a 5-year average now. As you learn more about the insurance business, you will learn that a 1-year figure might be very disastrous.

Mr. BALDRIDGE. A 5-year would be what?

Mr. COMER. I haven't averaged it for 5 years. I estimated roughly 36 percent.

Mr. PLOESER. Let's say it is 36 percent. The balance of that, you said, of this dollar went to profits, overhead which you did not break down, and to dividends which, of course, is a part of profits and to increase surplus.

Mr. COMER. Yes.

Mr. PLOESER. Now, is that the only place that it went, the places that you have enumerated?

Mr. COMER. All expenses were paid out of it.

Mr. PLOESER. What do you include in expenses?

The point I am trying to get at is that: Part of this dollar stayed in the field with the local agent. How much stayed there?

Mr. COMER. That is a long detailed break-down which I do not have. All expenses, of course, chargeable to the company, from whatever source, and there are hundreds and hundreds of them—all expenses are supposed to be included.

Mr. PLOESER. Mr. McKittrick, can you give us the figure for the State of Missouri as to what portion of that dollar stayed with the agency, the agent's commission?

The CHAIRMAN. Just a moment, please, Mr. Ploeser. If we start that, we will never get anywhere.

Mr. PLOESER. There are so many implications being made here which are absolutely inadequate figures—if the gentleman knew his insurance, he could answer the questions—if he doesn't, he can't answer them.

The CHAIRMAN. I hope that you will confine your questions to the people being interrogated.

Mr. PLOESER. I was just trying to get the figures for him.

The CHAIRMAN. Let us have Mr. McKittrick later.

Mr. McKITTRICK. 15 percent, with the organized companies.

Mr. PLOESER. Isn't it higher than that?

Mr. McKITTRICK. In some instances 20—but 15 percent. If they pay more than 15 percent, the respective companies and organizations are fined.

Mr. PLOESER. It runs as high in some places, in the State of Missouri, as high as 35 percent.

Mr. McKITTRICK. They will be violating the rules. In the affiliated companies, according to the testimony that has been taken, they are fined, and any number of them have been fined. In the city of St. Louis there have been many fines.

Mr. PLOESER. I know but we also have legitimate contracts in the city of St. Louis, according to the Western Underwriters Association, as high as 35 percent.

Mr. McKITTRICK. We don't have any such testimony. Twenty percent is the highest, to the respective writing agencies. I am talking about the State agencies. There is a difference between the State agencies and the local writing agencies.

Mr. PLOESER. We will let the question go until you finish the rest of your testimony.

Mr. BALDRIGE. Mr. Comer, table No. 1 indicates that dividends amount to about one-third of the losses paid. What significance would you attach to this high ratio of dividends to losses?

Mr. COMER. It raises the question as to whether the companies are being operated for dividends or profits or to meet the losses from fire and other casualties. They are paying out in dividends about a third as much as they do on the losses. It seems to be a high ratio.

Mr. PLOESER. Have you compared dividends to capital investment anywhere along the line?

Mr. COMER. I have compared earnings to capital investment for some companies, yes.

Mr. PLOESER. I have never heard of dividends compared to losses before. I have always heard of them being compared to capital investment.

Mr. COMER. They pay to the people who have the losses a certain sum, and apparently the dividends alone amount to about one-third of that amount.

Mr. PLOESER. How much of that dividend is made up from invested capital and securities, and how much is made up from premium dollars?

Mr. COMER. The figures are available, but are not broken down here; but you do not have a very significant break-down after you get it because those investments are accumulations, past profits, and premiums.

Mr. PLOESER. What if you had a company with \$1,000,000 investment. Say that this \$1,000,000 was invested in, say, 3 percent earning stocks or bonds, or possible real estate. Three percent of \$1,000,000 is \$30,000 a year, is it not?

Mr. COMER. Yes.

Mr. PLOESER. If this company was new or old, for that matter, and wrote a very limited insurance business, say they only wrote \$50,000 worth of premiums a year, and according to your figures had,

let us say, a 40-percent loss ratio, which would be \$20,000 in losses, and a \$30,000 income from investments alone, and say another 10 or 15 points on their premiums profit, which would bring it up to about \$45,000 earnings for the company, or two and one-quarter the losses paid—would that not be so? I don't see how you can compare dividend earnings to losses and make any kind of a logical figures.

Mr. COMER. In the illustration which you used, you have assumed that the company is not primarily an insurance company but an investment company. Once in a while we do have a sort of an insurance investment trust in which most of their assets are stocks of other companies, but from the very terms of your assumption you are going to get a high ratio; but in that case, it would be, not an insurance company, but an investment company. We have one or two illustrations along the line of the question that you raised. They are more nearly investment companies than insurance companies.

Mr. BALDRIDGE. Mr. Comer, what does the over-all picture with respect to earnings show for the 10-year period 1929 to 1938, inclusive?

Mr. COMER. On the basis of the record of these companies compared with most American industries which we have studied the earnings are unusually stable and unusually high, and that indicates that the premiums could have been less and given a fair return on the money.

Mr. BALDRIDGE. Based on your experience in making industry studies for various industries over the past 4 or 5 years, what significance, if any, would you attach to a consistently high earnings record over this 10-year period?

Mr. COMER. We have always found that a good 10-year earnings record over this period goes along with monopoly and restraint of trade because time after time in our investigations where we have found a monopolistic condition to exist, we have found this constant, rather stable, earnings but not under conditions of competition.

Mr. BALDRIDGE. Is there any other comment that you would care to make, Mr. Comer, with respect to table 1?

Mr. COMER. I believe not, Mr. Baldrige.

Mr. BALDRIDGE. Turning to table 2 of exhibit 1, explain briefly, summarize briefly what is included.

Mr. COMER. Table 2 is a financial record of 15 of the largest fire-insurance companies. They do some other business which we will indicate a little later on. This indicates that 15 companies have total assets at the end of the table of about \$959,000,000, nearly \$1,000,000,000, as compared to 565 companies having \$2,751,313,000; or, if I remember the figures correctly, 15 companies represent 35 percent of the assets of all of the companies reported in 1939.

The same story prevails with respect to the break-down of capital and surplus. That is shown in pencil.

The capital and surplus of 15 companies was \$592,409,767 of which \$104,244,000 was capital and \$488,166,000 was surplus.

Mr. BALDRIDGE. Now, Mr. Comer, turning to the background of the figures under the Aetna Insurance Co., there is a percentage of 9.5 percent which represents the percentage of earnings to capital and surplus?

Mr. COMER. Yes.

Mr. BALDRIDGE. Will you explain that figure, please?

Mr. COMER. The capital and surplus of Aetna is reported at \$25,589,892 and the earnings for the year are reported at \$2,425,000—or a ratio, arrived at by dividing \$25,589,892 into \$2,425,000, or 9.4 of earnings to capital and surplus.

Mr. BALDRIDGE. Can you divide out the surplus from the total capital and surplus account?

Mr. COMER. Yes.

Mr. BALDRIDGE. For the Aetna Co?

Mr. COMER. I could do it for Aetna, but I have not done it.

Mr. BALDRIDGE. Have you done it for all 15 companies?

Mr. COMER. I gave the figures. The capital was \$104,244,000; and the surplus \$488,166,000.

Mr. BALDRIDGE. So if you consider the relationship of earnings to capital investment rather than to capital and surplus combined, what kind of a picture would you get of the percentage relationship between dividends paid and earnings to capital only?

Mr. COMER. Mr. Baldrige, I have not made that calculation, because as an economist I believe it would be unfair to the insurance companies because they ought to have some return to their surplus that has been reinvested, but the question is: Whether they should have as much return as they did have; therefore, I do not think it is fair to take the total earnings and divide that figure by the capital alone, because that doesn't allow them anything on the surplus they have invested.

A fairer figure—if this does not get too complicated—a fairer figure would be to take your total capital and then allow them a reasonable amount, 3 or 4 percent—maybe 5 percent—the going rate of interest on that surplus which they turned back.

Mr. BALDRIDGE. Even on that adjusted basis, Mr. Comer—

Mr. PLOESER. Isn't it true that in the setting up of ample security for the policyholder in an insurance company, that surplus should be left impounded in the company's reserves, and in the operation of the business it is just as vital as the initial capital?

Mr. COMER. Yes.

Mr. PLOESER. And it is in effect capital.

Mr. COMER. Answering the question quantitatively; yes.

The main point where we might differ, though, is whether they need to leave as much as they did in the surplus on which they draw dividends. I should like to call attention to one problem that might come to your mind. These are consolidated income figures for the 15 large companies and it is not for fire and related insurance alone.

In 1939, the total premiums in force was around \$494,000,000 roughly, and of that amount, ocean marine and inland marine (Great Lakes for example) was \$92,420,000, leaving for fire, tornado, sprinkler damage, and so on, \$401,641,000.

Mr. BALDRIDGE. Approximately what percent?

Mr. COMER. 81.3 percent of the total which we term "fire, tornado, and sprinkler damage."

Mr. BALDRIDGE. And what is inland insurance?

Mr. COMER. On the Great Lakes, inland water.

Mr. PLOESER. For the information of the committee, inland marine might be termed "dry marine". It covers transportation risks not generally ascribed to wet risks, such as river cargoes or hulls or lake cargoes or hulls, or ocean cargoes or hulls. You might refer to them, instead of inland, as wet and dry marine.

Mr. COMER. They are reported uniformly, in the sources of information that I have, as ocean marine and inland navigation.

Mr. PLOESER. That is right. Inland navigation comprises many phases, but the reason I state it as I do, in the term "inland marine insurance," you will find a great portion of that premium allocated in your statistics—inland marine insurance being in fact fire insurance premium because it is on an inland type of risk, the greatest hazard of which is probably fire in the greatest number of cases. It is written under a blanket form of policy covering multiple risks, and that is why it is called marine.

Mr. BALDRIDGE. For the 15 companies that you have listed in table 2, what is the loss ratio of the premiums in terms of percentage?

Mr. COMER. The percentage loss ratio to premium is 46.75.

Mr. PLOESER. Is that premium written, or premium earned?

Mr. COMER. Net premium earned.

Mr. PLOESER. Net premium?

Mr. COMER. Net premiums earned.

Mr. PLOESER. Is that the proper basis?

Mr. BALDRIDGE. And the percentage of earnings to capital and surplus for the 15 companies, the average of that?

Mr. COMER. 7.3. The percentage of earnings to losses incurred is 33.4, and the dividends to losses incurred are 22.2 for the 15 companies.

Mr. HALLECK. You say that it was 7 percent of earnings to capital and surplus?

Mr. COMER. Yes, 7.3.

Mr. PLOESER. A direct comparison?

Mr. COMER. The capital is \$104,244,000 and the surplus is \$488,166,000, again a little more than four times the capital.

Mr. HALLECK. I have always been told that capital is wealth devoted to further production, and if so it ought to be entitled to earn.

Mr. COMER. That is right, but it depends on how much you are permitted to earn on the return.

Mr. HALLECK. I wonder if that is the thing here, Mr. Chairman? In other words, if we are going to indict these firms because they are successful—

The CHAIRMAN (interposing). There is no testimony to indict the companies, as I understand it. It is just a matter of listening to the testimony to be presented.

Mr. COMER. May I say, Mr. Chairman, the record of the Aluminum Co. of America, the nearest to being a 100-percent monopoly that we have is almost uniformly 6 percent on the capital invested, year after year, because they see fit to plow back into the industry and maximize their profits as long as they can earn 6 percent; therefore, it is one of the signs of monopoly that they are able to plow back and get about a 6 percent return on the investment year after year.

Mr. BALDRIDGE. With respect to the fire insurance field, they show a better picture?

Mr. COMER. Just a little better than the Aluminum Co.

Mr. PLOESER. Do you say that the surplus that is allowed to stay in the business is capital plowed back?

Mr. COMER. You might earn 15 percent on it, which would be unreasonable from an earning standpoint.

Mr. PLOESER. You might, but your figures show that you have not.

Mr. COMER. Normally, they would plow it back as long as it just about earned reasonable interest. That will maximize—

Mr. HALLECK (interposing). If you took it out, you could not earn a reasonable interest rate.

Mr. COMER. If you took it out, there could be a lot of smaller business units that could compete with the big ones.

Mr. HALLECK. Is that what we are getting at?

Mr. COMER. Our interest is primarily the small businessman.

Mr. PLOESER. Justify that statement, "if you took all of this surplus out of the insurance business." We are not talking about the Aluminum Co.

Mr. COMER. We are not suggesting taking out all of the surplus. In answer to your question, if you took out a large percentage of the surplus of these 15 big companies, by assumption, the 15 would not be nearly so big; and the smaller companies would have a greater chance to compete with them.

Mr. HALLECK. I might think something about getting into the insurance business myself, if you make that much money.

Mr. COMER. It does look like a good record. That is the way companies get big.

The CHAIRMAN. Let me ask you a question. Do you mean to say here that these premiums earned, that means after local agents have been paid and the State agent has been paid and the expenses directly connected with the obtaining of that business have been deducted, the amount stated here represents the premiums earned; am I right about that? Or do you, in determining the amount of premiums earned, include the total premium; and from that, of course, you must later pay the local agent and others for their expenses in connection with the obtaining of the business?

Mr. COMER. In view of the obviously greater detailed information on the expenses and operations, I would refer that to Mr. McKittrick, or Mr. Hyder for the details.

The CHAIRMAN. We will do that later, but let me ask you this question: You say that 46.75 percent, that is the loss ratio?

Mr. COMER. Of the 15 companies.

The CHAIRMAN. Of the 15 companies, and the percentage dividend to losses incurred is 23.2?

Mr. COMER. Yes.

The CHAIRMAN. In other words, every time 46 cents of \$1 was paid for losses, 23 cents of that dollar was paid in dividends—

Mr. COMER (interposing). No, no.

The CHAIRMAN. Well, what is the way?

Mr. PLOESER. The answer is certainly "no."

The CHAIRMAN. That is the point I could not understand.

Mr. PLOESER. If I may interject this thought, the table is confusing in that an insurance company is, first of all, an investment organization. It can't sit there with all of its capital and cash.

Mr. COMER. I would like to straighten out the arithmetic of the chairman.

The CHAIRMAN. That is what I would like to know. Have you practically finished your testimony?

Mr. COMER. I would like to straighten you out on the arithmetic of your question.

The CHAIRMAN. All right.

Mr. COMER. When 46 cents on the dollar is paid out in losses, an equivalent of one-third of that represents earnings, or that would be 15 cents. When this 46 cents is paid out on losses, about 15 cents represent earnings, and less than one-fourth, or about 11 cents is paid out in dividends. That is the correct arithmetic.

Mr. PLOESER. You cannot get a fair picture of comparing earnings or dividends with losses. You have to take into consideration the source. There are two sources in insurance; one is from the insurance premium and the other from the income earned from investments. Is that not true?

Mr. COMER. Yes.

Mr. BALDRIDGE. I believe that is all from Mr. Comer.

Mr. BULWINKLE. I want to ask a question or two, myself.

The CHAIRMAN. Go right ahead.

Mr. BULWINKLE. This is very significant. I haven't had time to investigate, but this committee, Mr. Chairman, was instigated, as was my understanding, for small business on account of war conditions.

What has this got to do with it so far as war conditions are concerned?

The CHAIRMAN. Well, I understand it can be connected up.

Mr. BULWINKLE. How do you connect it up?

The CHAIRMAN. I think General McKittrick can come nearer to connecting it up than anyone.

Mr. BALDRIDGE. May I answer the Congressman, please?

The CHAIRMAN. Yes.

Mr. BALDRIDGE. We are attempting through Mr. Comer to introduce a general statistical picture of the fire insurance business and follow the details of how it is related to small business, with Mr. McKittrick.

Mr. BULWINKLE. Did the war cause any of this?

The CHAIRMAN. Suppose we hear from General McKittrick, and let him testify as to the connection?

Mr. BULWINKLE. That is the purpose of this committee, and for the sake of argument, we will suppose that everything that has been said is true and absolutely correct.

The CHAIRMAN. I feel like we are justified in bearing with them to present their case, Major; don't you think so?

Mr. BULWINKLE. I don't know about that, unless I hear something more than what I have already heard now.

The CHAIRMAN. They are just approaching it now.

Mr. FITZGERALD. Hasn't this condition existed a great many years? Is it something that has just come up? I thought the purpose of this committee was to investigate small business.

The CHAIRMAN. Have you anyone that you would like to be brought in, a small manufacturing business?

Mr. FITZGERALD. We are just going around the rainbow, it looks like. We are not calling in the small manufacturer who is going out of business to come in here and testify and give us some information.

The CHAIRMAN. I think that we ought to hear General McKittrick as to his connection of his remarks with the jurisdiction of the committee.

Mr. BULWINKLE. All right.

Mr. PLOESER. May I have the privilege of introducing our Attorney General of the State of Missouri, Attorney General McKittrick of the State of Missouri, and Mr. Robert Hyder, our Assistant Attorney General.

STATEMENT OF HON. ROY MCKITTRICK, ATTORNEY GENERAL OF THE STATE OF MISSOURI (ACCOMPANIED BY HON. ROBERT L. HYDER, ASSISTANT ATTORNEY GENERAL OF THE STATE OF MISSOURI)

Mr. MCKITTRICK. My name is Roy McKittrick. I live in Jefferson City, Mo. I am attorney general.

Mr. ELMORE. You are the attorney general of Missouri?

Mr. MCKITTRICK. Yes.

Mr. ELMORE. How long have you held the office?

Mr. MCKITTRICK. Since January 1933.

Mr. ELMORE. Will you please make a brief statement for the benefit of the committee as to why you think the testimony which you are prepared to offer should be of interest to the committee.

Mr. MCKITTRICK. First, for the reason that I am convinced that it is a problem that no State can handle. My reason for saying that is that the State of Missouri since 1922 has been resisting the rates of the organized insurance companies of the United States, and the question is still unsettled. The war situation has brought about a condition by which the insurance payers, or the insurance buyers in small business, the home owners, are carrying unreasonable burdens and unfair burdens by virtue of the contracts that they are forced to pay. Every insurance buyer is compelled to accept whatever insurance contract is offered him. The small consumers, the farmers, the cotton men of our country are forced and compelled to pay the rates that are fixed in our State, that is, under the jurisdiction and supervision of what is known as the subscribers' actuarial committee. They paid insurance on stored corn exactly as fixed by one man and approved by four men in the city of Chicago who are members of the subscribers' actuarial committee, and the same is true with reference to the cotton.

The insurance on that property is fixed by these gentlemen who control the insurance business of the United States. It is true that it was more or less of a problem prior to the war. In 1922, the Missouri Insurance Commissioner ordered a reduction of rates of 10 percent. That was resisted by the companies and that fight continued until 1935 when by a system of ruthless methods they bribed the insurance commissioner, and had the question determined for a short while. From 1930 to 1935 approximately \$13,000,000 were impounded in the courts, and, by this bribery they returned 80 percent of that sum to the companies and 20 percent to the policyholders.

Now, the reason, Congressmen, that the State cannot handle it—no State can—is because there is not any State law that can handle it that I am familiar with, and that includes the 18 States within this jurisdiction. It is not only important as to the amount of money that is paid for insurance, it is important regarding the kind and conditions of the contract; and in our State from 1922 until 1935, the companies withheld from our people the same type and character of contract that they gave to Kansas, Iowa, Minnesota, Wisconsin, Illinois, Indiana and Ohio.

Mr. PLOESER. What contract are you talking about?

Mr. McKITTRICK. The supplementary contract. It was not in force until after Street had made a contract for settlement, and we were denied, our people, we weren't given the same price. We weren't given the same opportunities and the same considerations that were given other States such as Illinois which the committee itself terms their pet State because there is no attempt to regulate insurance companies in the State of Illinois.

Now, that is my reason why I ask the chairman of this committee for an opportunity to be heard.

In a wartime like this, there is no reason why a few corporations, a few men, should take advantage of this situation and force people to pay whatever they desire should be paid, and also the Government, because the Government is being supported by the people who are paying these insurance premiums.

The CHAIRMAN. Does the Government insure these defense plants?

Mr. McKITTRICK. No, sir. The gentlemen who are members of this executive insurance committee in New York City have control of it, and it may be of interest that 52 of the largest insurance companies in the United States are British owned and British controlled.

The CHAIRMAN. Do you mean to say these defense plants are not insured?

Mr. McKITTRICK. They are insured upon such terms and conditions and such rates as are fixed.

The CHAIRMAN. Your answer then was not responsive to my question. You said "No," awhile ago.

Mr. McKITTRICK. By the insurance companies, but the Government has to accept such terms and conditions and rates as are fixed by the companies.

The CHAIRMAN. The point is: Are they covered by insurance, the defense plants?

Mr. McKITTRICK. Yes.

Mr. HALLECK. You mean the defense plants owned by the Government. I have not been under the impression that the Government insures its buildings.

Mr. McKITTRICK. I think not.

Mr. HALLECK. You are talking now about plants owned by individuals engaged in the defense effort?

Mr. McKITTRICK. Remington, and so forth, that is right.

The CHAIRMAN. I think that is very important. For instance, we have a shell-loading plant near my home, and a shell-storage plant. It is being constructed and will be operated by the Goodrich Tire & Rubber Co. Will they insure it? Is that considered a Government plant?

Mr. McKittrick. I can speak only for Missouri. You take the Remington at Kansas City, and such places; yes.

The CHAIRMAN. They are insuring?

Mr. McKittrick. Yes; they are insuring.

The CHAIRMAN. Although the Government is putting up the money and paying for it on a cost-plus basis?

Mr. McKittrick. Yes, sir.

The CHAIRMAN. And who fixes this rate?

Mr. McKittrick. In Kansas, it is fixed by the Western Actuarial Bureau which is the organization of the organized companies.

Mr. McKittrick. Chicago.

Mr. Elmore. That will all be explained. We have charts to show that.

The CHAIRMAN. Excuse me, please. I will refrain from asking any more questions.

Mr. Ploeser. There is a question I would like to ask at this point:

Does the Government set down a certain qualification on a fire insurance company for one of these plants?

Mr. McKittrick. I cannot answer about the qualifications.

Mr. Ploeser. That is important, because I happen to know that in the North American plant in Kansas City, the Government rejected the very companies you are here to defend, accepted others. You are here to defend small business, are you not? Some of the smaller insurance companies that had originally written the policies on that plant were rejected by the Army because they didn't have a certain minimum capitalization, and the amount of which I do not know.

Mr. McKittrick. That may be true.

Mr. Ploeser. I know it is, because I understand my office issued some of them for an agent and had them rejected. I am in the insurance business myself.

Mr. McKittrick. Do you represent the affiliated or the non-affiliated?

Mr. Ploeser. Both. That is why I have asked so many questions here, General McKittrick, because I am supposed to know something about this business. From the testimony that I have heard, I am not sure that I do.

Mr. Elmore. In order that the members of the committee may understand the situation, it would be helpful if you would explain how you are proceeding in the State of Missouri against the stock fire insurance companies.

Mr. McKittrick. You mean the present one?

Mr. Elmore. The present proceeding.

Mr. McKittrick. Under the antitrust laws of Missouri, we filed a petition in the Supreme Court of Missouri in the nature of a quo warranto to oust 134 companies that had participated by contributing to the fund that was paid to Mr. Pendergrast for the bribery of the superintendent of insurance; after we had taken some testimony based upon those allegations in New York, we discovered the plan and the scheme and the method by which these companies were operating. Then, we amended the petition by alleging they were violating the antitrust laws of the State of Missouri, and the case is now pending in the court. A commissioner has been appointed, and we have taken testimony in New York and Chicago and Jefferson City

and the record now contains something more than 14,000 pages with 2,000 exhibits.

Mr. **ELMORE**. Is this a copy of the antitrust laws of Missouri under which you are proceeding?

Mr. **McKITTRICK**. Yes, it is.

Mr. **ELMORE**. Would you read that first section for the benefit of the committee?

Mr. **McKITTRICK** (reading):

SEC. 8302. Pool and trust agreements defined: Any person who shall create, enter into, become a member of or participate in any pool, trust, agreement, combination, confederation, or understanding with any other person or persons to regulate, control or fix the price of any article of manufacture, mechanism, merchandise, commodity, convenience or repair, or any product of mining, or any article or thing whatsoever of any class or kind bought and sold, or the price or premium to be paid for insuring property against loss or damage by fire, lightning or storm, or to maintain that price when so regulated or fixed, or that shall enter into, become a member of or participate in any pool, trust, agreement, contract, combination, consideration or understanding, to fix or limit the amount or quantity of any article of manufacture, mechanism, merchandise, commodity, convenience, repair, any product of mining, or any article or thing whatsoever of any class or kind bought and sold, or the price or premium to be paid for insuring property against loss or damage by fire, lightning or storm, shall be deemed and adjudged guilty of a conspiracy in restraint of trade, and be punished as provided for in this article.

Mr. **PLOESER**. Does Missouri have a fire-rating statute?

Mr. **McKITTRICK**. We do.

Mr. **PLOESER**. Will you read it?

Mr. **McKITTRICK**. Yes.

SEC. 5972 (R. S. Mo. 1939). For this purpose each company or other insurer shall be permitted to maintain its own public rating record or to use a public rating record maintained by an actuarial bureau, provided, such record shows the true and correct rate charged by such company or insurer; and provided further, that no company or other insurer may directly or indirectly by any agreement, contract, understanding, or otherwise agree with any other company, insurer, or actuarial bureau to continue to use the rating record of any actuarial bureau or to refrain from maintaining its own rating record, or to maintain the rates fixed by any such actuarial bureau.

And if it is permissible, our courts have held that these two statutes, the antitrust statute and this one that I have just read, does not take the companies out of the antitrust statute but merely strengthens the antitrust laws. That question has been before the court.

Mr. **PLOESER**. The reason I asked you that was this: Doesn't the State of Missouri maintain supervision over the Missouri inspection bureau which makes the fire rates in the State of Missouri?

Mr. **McKITTRICK**. May I explain that to you?

Mr. **PLOESER**. I want you to explain it.

Mr. **McKITTRICK**. We have an insurance department. When there is submitted to the insurance department an increase in rates, then the insurance commissioner—they have to be heard, and that has to be granted by the insurance commissioner, but for any decrease in rates, no. And with reference to the provisions of the contract itself, the insurance policy, our courts have held, and I think that most of the courts have held, that a public official cannot make a contract between two individuals, and that statute of course has been held to be constitutional, and rightly so because no public official can contract under our Federal and State Constitutions for another. State control over insurance companies is merely limited to what the insurance companies submit to them provided it is an increase.

Mr. ELMORE. The statute, as I understand it, assumes that the insurance companies will act individually and not in concert in filing rates with your insurance commissioner.

Mr. McKITTRICK. A public rating bureau or an independent bureau—something which is independent and cannot be controlled by these companies, but these Inspection Bureaus are costing the companies. That is where some of these expenses are going to, and all of the expenses of these different bureaus, the Government is not collecting any income tax from such bureaus.

Mr. PLOESER. The Government does not collect income tax on expenses, do they?

Mr. McKITTRICK. That is a question that the Government decided, the officials of the Government decided, and which was termed to be a very close decision, at which a judge by the name of Waters was given high praise for being successful in obtaining relief from any income tax on the cost of these respective bureaus—the auditing bureau, the Missouri Inspection Bureau, and so forth.

Mr. ELMORE. In interest of time, let us proceed with this explanatory part of your testimony, please, Mr. McKittrick.

Mr. McKITTRICK. Yes.

Mr. ELMORE. I want you now to explain for the benefit of the committee the organization of the fire insurance companies as it has become known to you in the course of the prosecution of your Missouri case.

Mr. McKITTRICK. May I be permitted to ask a question?

The CHAIRMAN. Yes.

Mr. McKITTRICK. Then, may Mr. Hyder, make this explanation? My throat has just about given out on me.

Mr. ELMORE. I have the charts here, and I would like to have them marked as exhibits 2, 3, 4, and 5, respectively.

The CHAIRMAN. They will be so marked.

(The documents were marked as exhibits 2, 3, 4, and 5, respectively, and are on file with the committee.)

Mr. HYDER. I will try to make this explanation just as brief as possible.

The CHAIRMAN. Which chart are you using?

Mr. HYDER. This is the chart Exhibit No. 2 showing the national organization of approximately 300 insurance companies who write between 88 and 96 percent of all fire insurance business within the United States.

Mr. HALLECK. I wonder if we might have the gentleman's name and position?

Mr. HYDER. It is in the record here. It is Robert Hyder. I am assistant attorney general of the State of Missouri.

Mr. PLOESER. Is this stock mutual or reciprocal?

Mr. HYDER. Stock. The stock companies write from 87 to 96 percent of all the insurance business written in the United States, these particular stock fire insurance companies.

Mr. PLOESER. You mean all fire insurance business?

Mr. HYDER. That is right.

The Insurance Executives' Association, is at the head, with its headquarters in New York City. There are 14 trustees who control that organization. It was organized in 1932 for the purpose of collaborating the 4 regional organizations into which organizations insur-

ance companies are divided. These 14 trustees are the presidents of the larger companies. I think most of them are on this list of 15, which figures were submitted to you by the statistician awhile ago. Now, then, the 4 regional organizations are the Eastern Underwriters' Association, which operate in the Northeastern and Coast States; the Western Underwriters' Association which operates in the Middle West; the Pacific Board of Fire Underwriters, which operates on the Pacific coast, and the Southeastern Underwriters' Association, which operates in the Southeast clear over to Texas.

These organizations fix rates for their respective jurisdictions. If any matter of major importance comes up on which to recommend national jurisdiction and there is a disagreement, it is submitted to the Insurance Executives' Association. You have all heard of the National Board of Fire Underwriters. It has been given much publicity on fire-prevention work, but the executives have stated that the main purpose of that board is to adjust the legal matters for all of these larger companies.

The Underwriters Laboratory, you have all heard of that. You will find their seal of approval on all kinds of fire extinguishers. Unless a particular form of fire-fighting equipment bears this seal of approval, you don't get any reduced rate because the rule books promulgated by these various regional organizations, they require that seal.

Mr. PLOESER. I am afraid that some of you gentlemen here did not hear what was said about the equipment. That is important. Would you mind restating that, please?

Mr. HYDER. Yes, I will. This Underwriters Laboratory was formerly a committee of the National Board of Fire Underwriters. It has been given a so-called independent status.

Mr. PLOESER. Is it not a research organization?

Mr. HYDER. It is supposed to be.

Mr. PLOESER. Is it, or isn't it?

Mr. HYDER. Some of them.

Mr. PLOESER. Doesn't it do research work entirely?

Mr. HYDER. No, sir.

Mr. PLOESER. What else does it do then?

Mr. HYDER. If you write insurance in the State of Missouri, your rule book requires that in order to get a preferred rate on a particular risk, the fire-fighting equipment used must bear the seal of approval of the Underwriters Laboratories, Inc.

Mr. PLOESER. Is that outside the line of research?

Mr. HYDER. Well, I would think so. I don't know.

To require that I use a certain kind of fire extinguisher I think would be out of research.

Mr. PLOESER. Does the laboratory require that, or the Eastern—

Mr. HYDER. The Underwriters Laboratory is controlled by these organized companies.

Mr. PLOESER. But it is strictly a research organization, isn't it?

Mr. HYDER. As I say, I don't say—

Mr. PLOESER (interposing). You said that it wasn't.

Mr. HYDER. If the equipment does not bear their seal, you can't use that particular brand of fire extinguisher in Missouri and hope to achieve any benefit in the fire-insurance rate.

Mr. PLOESER. While I do not agree with all the set-up that you have here from the standpoint of it being righteous, let it be said in all fairness to the Underwriters Laboratory that it is probably one of the finest research organizations in the world and devotes itself entirely to research.

Mr. HYDER. The organization association thinks so.

Mr. PLOESER. I don't agree with all that set-up. I do not think it is all righteous, but let us give credit where it is due.

Mr. HYDER. We are concerned with this region right here in the Mid-west [indicating Exhibit No. 5]. Two hundred and fifty-one companies belong to the Western Underwriters Association. Thirty-eight members belong to the Western Insurance Bureau. The only difference in those two is in the amounts of commissions which may be paid to agents. If you are an agent in the Middle West, including Missouri, the compensation which you can receive from any big organization for insurance is fixed in the rule book of this organization here, or these organizations here [indicating].

The CHAIRMAN. What is the difference? Do they get more or less?

Mr. HYDER. The Western Insurance Bureau pays 5 percent more on certain classes of risk. On most classes of risks you are paying a commission of 15 percent. In other words, the freedom of contract between the agent and the company is gone. He can receive only so much commission, and if an agent is paid a larger amount that is fixed in the rule book which you will see later, that company is fined from \$100 to \$1,000 for having paid that agent more than it should have. They say that is competition and that they are all entitled to "equal competition."

Mr. PLOESER. What is the average commission in the State of Missouri?

Mr. HYDER. It is set out in the rule book.

Mr. PLOESER. The rule book could not show the average, because there is a scale of commissions, and the average has to be based on the dollar income, and how much you paid out of it for commissions.

Mr. HYDER. I understand. I am not a statistician, but here is what the rule book says:

Except as provided in section (b), a maximum commission of 15 percent only may be paid on any class of fire, tornado, and cyclone business to agents.

In St. Louis City they have a special rule where the boys can make a special agreement whereby you can get a little larger commission. I haven't attempted to see what the average is.

Mr. PLOESER. That is what I pointed out, because that does not apply to all the State of Missouri.

Mr. HYDER. That is right.

Mr. PLOESER. And there is a clause where you are allowed 25 percent, isn't there?

Mr. HYDER. That is right. The 25 percent is on farm property, churches, schools and so forth.

Mr. PLOESER. Dwellings? It is on the preferred business, the 25 percent?

Mr. HYDER. That is right. Now, here is the way the rates are fixed in every State in our jurisdiction, and it doesn't make any difference where you are from, your rates are fixed the same way.

Mr. HALLECK. Might I ask a question right here. I am from Indiana. Are all the fire insurance companies in Indiana in this association?

Mr. HYDER. Not all. We find in their minutes frequent discussions about your antitrust laws.

Mr. HALLECK. When you say "organization companies," what do you mean?

Mr. HYDER. I mean the 300 larger organization companies which approximately write 92 or 93 percent of all business, no mutuals.

Mr. ELMORE. You mean those who belong to this trade association set-up which you are explaining now?

Mr. HYDER. That is right.

Mr. HALLECK. My country is full of little fire insurance companies insuring the farmers' properties. Are they in this thing?

Mr. HYDER. No, sir; they are called cut-rate companies by this organization, and you find frequent complaints in their minutes where they might be doing that in Indiana, and sometimes to meet the competition of your companies which you mentioned, they will cut a rate or put in a new form just in order to meet that competition. It is severe in Indiana, you are right.

Mr. HALLECK. Of course, the thing that I haven't been able to rationalize as I have been sitting here and listening to this—and I did not know what we were going to have before the committee today—but as I say, it is a little hard for me to rationalize it knowing the situation as I do, that a lot of these little companies have been there for years, and as far as I know there is no compulsion about the rate.

Mr. HYDER. I understand, and these small companies that are the little companies will come and go, and they are never thought of as safe.

Mr. HALLECK. I understand that.

Mr. HYDER. You would be surprised how small the business is that they write in Indiana. Probably 3 percent of 4 percent is all that those companies that you mention will write. Those are all stock fire insurance companies (indicating chart).

Mr. PLOESER. Do you tax these companies in Missouri?

Mr. HYDER. On the basis of premium income. The mutuals do not write much business anywhere, but what business they do write is on a 25 to 40 percent less rate than this.

Mr. PLOESER. Do you tax the reciprocals on the same basis?

Mr. HYDER. Well, I couldn't say offhand; I do not know. I am not interested in that particular phase of it right now.

Mr. HALLECK. Is this the situation that has existed for a number of years?

Mr. HYDER. Since 1879 to be exact.

Mr. HALLECK. Is it any different now, say in the past year, than it has been before?

Mr. HYDER. They have fixed the rates ever since they got the power to do so.

Mr. PLOESER. All of these companies get their business through the units of small business, don't they?

Mr. HYDER. Through the units of small business?

Mr. PLOESER. That is right.

Mr. HYDER. If you want to be a general agent for any company in the State of Missouri which belongs to either of these organizations, they present your name before their board of governors, and if they say that you can represent them in the State of Missouri, you represent them. If they say that they do not favor you, you cannot represent any of them in the State of Missouri.

Mr. PLOESER. I do not believe that you are quite accurate on that.

Mr. HYDER. I am telling you what the proof is.

Mr. PLOESER. Don't they actually do this: If the Aetna appoints you as their general agent, as long as the Aetna keeps within the rules of this governing body in that appointment, they don't care?

Mr. HYDER. No, sir; if they don't like me—they did not like a certain agency in Kansas City, R. B. Jones & Co., they kept them out for years, and he finally got in, and they approved him to be their agent in the State of Missouri, so it goes further than even you know, Mr. Ploeser.

Mr. PLOESER. I am not so sure. I know that I could not be their general agent.

Mr. HYDER. That is right.

Mr. PLOESER. But because of the rule, I will admit a lot of them don't like me, and I don't like a lot of them. That has little to do with the fact that I could not be an agent under the rules.

Mr. HYDER. It does not have much to do with the fact that if I represent the Aetna Co. I cannot appoint you my agent unless I ask all the boys that are in New York whether or not you can be my agent.

Mr. PLOESER. I do not think that is true. I believe you are confusing an agent and a general agent.

Mr. HYDER. I am not confusing that. They only pass on general agents. Of course, the general agent will select the smaller agents. The little fellow on further down, he does not have to go through that same rigamarole.

Mr. PLOESER. I thought you said he did.

Mr. HYDER. No. If it is determined that a rate, rule, or form, and those three comprise a policy, is to be changed, seven men in Chicago, one chosen by the Western Insurance Bureau with 38 companies and six chosen by the Western Underwriters Association with 251 member companies, determine that a change in the rate, rule, or form be made. With them is the secretary, who is also the manager of the Western Actuarial Bureau. If the rate is lowered, it is usually to meet competition, and not based on any particular experience. Sometimes experience will be considered.

After the change is made, a letter will be written to the board of directors of the Western Insurance Bureau and the governing committee of the Western Underwriters Association, which letter requests approval of those organizations of the change. These organizations will return a letter of approval. This is done in order that the approving body may discipline its members if the variance in the approved rate, rule, or form appears. The subscribers committee communicates the charge to a local State inspection bureau. The members of those bureaus are selected and their salaries fixed by the Subscribers Actuarial Committee. In some States there is an insurance department. If there is, the change is submitted to the commissioner of insurance, and is approved by him in most instances as a matter of form.

This chart (indicating the rate maintenance and enforcement charge exhibit No. 3) is the method by which members ascertain whether other companies are living up to the agreements. Members of the Western Insurance Bureau or the Western Underwriters Association agree to send all daily reports through the audit bureaus which are established by the Subscribers Actuarial Committee. If an company sends a policy through the bureau at a cut rate, the audit bureau sends the agent and the company a notice showing the error. If correction is not made, it is sent to the Subscribers Actuarial Committee in Chicago.

The CHAIRMAN. How does this arrangement apply to Texas? We have a rating board in Texas.

Mr. HYDER. Texas has fined several of these companies for abuse of the antitrust laws. It fined them recently for fixing and agreeing on these commissions. I don't know exactly how your system works, but I find frequent mention of it and of the antitrust laws in Texas, and we find where this oil association, about which I will soon speak, fixes rates and rules in the State of Texas.

Mr. ELMORE. It is not included in the Western?

Mr. HYDER. I think it is part of the Southeastern.

The secretary of the Subscribers Actuarial Committee will probably call up the manager of the offending company in Chicago, and advise him that the company is out of line on this particular policy. If correction is not made, the criticism will be referred to the Western Underwriters Association which will take the matter up with the company and require it to abide by the rules. If this is not done, the company will be summoned to appear before the grievance committee, and may be fined under the rules for what is termed "unfriendly conduct."

Mr. HALLECK. I don't want to unduly delay this proceeding, but when I used to practice law, we would make an opening statement in which we would tell the jury what we expected to prove. This is all very interesting, but I wonder if at this point you would state to the committee whether or not it is a fact that the premiums which are charged are too high, or just what you are driving at. Is it your idea that these companies should all do business independent of each other and make their own rates and cut them down?

Mr. HYDER. We feel that the State and Federal laws require them to do that.

Mr. HALLECK. You say that the law requires them to do that?

Mr. HYDER. Yes.

Mr. HALLECK. Why haven't they been prosecuted under the law?

Mr. HYDER. We are prosecuting them in the State of Missouri.

Mr. HALLECK. Do I understand you to say that there are laws, Federal and State, to reach this thing about which you complain?

Mr. HYDER. We feel that the Federal antitrust laws do apply, of course.

Mr. HALLECK. Do you know why the Antitrust Division of the Federal Government has not prosecuted?

Mr. HYDER. I can't answer for them. I can say that their presence here today would indicate that they are interested, and that they want your interest.

Mr. HALLECK. We recognize that.

Mr. HYDER. The reason we are here to show you is because that if I am a little man in business, I cannot get the kind of insurance I want. I have got to take what they offer me.

The CHAIRMAN. In other words, like in Mr. Halleck's own State, these defense plants that are insured, these small companies in his State wouldn't have a reasonable chance of getting that business.

Mr. HYDER. They will not have a reasonable chance.

The CHAIRMAN. In view of this monopolistic condition that you state, it goes over the entire Nation—

Mr. HYDER. Yes.

Mr. HALLECK. Let us pursue that. I know that the State of Indiana is full of little companies that are doing a fire insurance business.

Mr. HYDER. Yes.

Mr. HALLECK. I would not accuse them at all of being in a big monopolistic combination. It may be that they are charging approximately the same rates that these other people. I don't know whether or not they could insure the Kingsbury ordnance plant—I think the Army would determine whether or not they had the backing to insure it and it may be well before we get through with this war that we might be glad that some of these insurance companies are solvent and have a little something with which to pay losses. I don't want to indict anybody because they are making some money.

Mr. McKITTRICK. These organized companies will not reinsure your company. They only reinsure companies that belong to their organization, and the reason that your companies cannot obtain any of this insurance—

Mr. PLOESER. You mean the Government insurance?

Mr. McKITTRICK. The Government insurance. The reason is because they have no outlet for any reinsurance.

Mr. PLOESER. Well, it is probably fundamentally and primarily because the Government does not think they have got the backing to carry the insurance; isn't that it?

Mr. McKITTRICK. The reason they haven't the backing is because they cannot reinsure in these organized companies.

Mr. PLOESER. That is not entirely true, Mr. McKittrick. The Government, as I understand it, is rejecting insurance policies on the basis of their own requirements, without even learning as to their reinsurance facilities, and it is also true that there are large insurance pools outside of these companies that you are talking about who will do the reinsuring for the little companies; is that not right? How in the world could all of these other little companies live that do not belong to this pool if they don't get reinsurance outside?

Mr. McKITTRICK. Mutual, reciprocal.

Mr. PLOESER. Stock?

Mr. McKITTRICK. They only reinsure among the nonaffiliated companies, and nonaffiliated companies cannot obtain reinsurance in one of the organized companies.

Mr. PLOESER. That is right, but you said there was not any place for them to get reinsurance. There is a place in an unaffiliated field.

Mr. McKITTRICK. That is what I mean, a nonaffiliated cannot obtain reinsurance in an organized company.

The CHAIRMAN. Is that satisfactory, to get your reinsurance in a nonaffiliated field? Are the companies in that field strong companies like the affiliated ones?

Mr. McKITTRICK. They are not.

Mr. PLOESER. A lot of these companies in the nonaffiliated field are equally as strong and as strong as the companies in the affiliated field?

Mr. McKITTRICK. What do you mean by "strong"?

Mr. PLOESER. What do you mean?

Mr. McKITTRICK. I mean their capital, surplus, and their amounts of insurance that they carry.

Mr. PLOESER. That is exactly what I mean, and I can name you many companies that are adequately strong enough to carry all of the risk that they may ever care to assume that are outside of this field. I can also name you companies in this group that are not as strong.

Mr. McKITTRICK. You can when you refer to an individual company, but you ought to bear in mind that all of these companies are grouped.

Mr. PLOESER. That is right as regards many, not all.

Mr. McKITTRICK. But within that group there may be five, six, seven, eight, or nine of these companies in a group, these organized companies.

Mr. PLOESER. Commonly known as fleets.

Mr. McKITTRICK. Commonly known as fleets. I am not so familiar with the nonaffiliated ones, but I doubt if you find fleets extensively in nonaffiliated companies.

Mr. PLOESER. You find fleets in the nonaffiliated as well as in the affiliated fields. The tendency toward fleets is because of the various agency restrictions and agreements among the companies, so they might have additional facilities to get additional agents. For example, there is an agreement in the city of St. Louis which permits one insurance company, if they belong to the local insurance board, to have only three agents in the city of St. Louis. The result is, if you think the city of St. Louis is a very desirable territory, if you want more than three agents, you go out and buy somebody else's insurance company, because every company is entitled to three agents, and that practice prevails in both nonaffiliated and the affiliated groups. One group is much greater in size than the other, and reinsurance likewise prevails in both groups. If it did not, none of them could live.

Mr. ELMORE. There is no question, Mr. McKittrick, that the Congressman's statement is true; but with regard to the companies that belong to the Western Underwriters Association, there is a rule in that association, is there not, sir, which makes it impossible for member companies to assume reinsurance obligations of nonmember companies.

Mr. McKITTRICK. That is right.

Mr. PLOESER. I am not challenging that statement; neither am I defending the practice.

Mr. ELMORE. General McKittrick, do you have any figures which would reveal the cost to the member companies of maintaining this State association machinery designed to fix and maintain rates?

Mr. McKITTRICK. We obtained from the files of the Western Actuarial Bureau the estimated costs, for 1934, and we have them with us, and we will be glad to furnish them to the committee.

Mr. ELMORE. Can you state for the record the aggregate sum?

Mr. McKITTRICK. I don't believe that I could, from memory.

Mr. ELMORE. Will you state for the record that those will be supplied later?

Mr. McKITTRICK. Yes.

Mr. ELMORE. General, can you explain the last remaining chart (exhibit No. 4) which has to do with pools?

Mr. McKITTRICK. On this chart is first shown the oil insurance association. This is an association that is organized by the organized companies to write insurance on filling stations, oils, throughout the 18 States within our territory, and the same is true throughout the United States.

Mr. PLOESER. Not so much on filling stations?

Mr. McKITTRICK. Not as much.

Mr. PLOESER. It is really on the oil refineries and the wells and the big well and drilling operations?

Mr. McKITTRICK. That is right, that is where most of that insurance is from.

Mr. PLOESER. And the filling stations go the way of all little business?

Mr. McKITTRICK. Yes. That association is divided into two parts; the larger the company or the group of companies, they have four parts, and the smaller the company the less part they have. That is, they all participate in the premium in proportion to the part they have in the association, and, likewise, the losses are divided in that ratio. They call it a pool. If the policy is written in the name of one company, all companies are equal in accordance with the ratio they own in the pool.

Mr. PLOESER. What is the purpose of this pool?

Mr. McKITTRICK. The purpose of this pool, in my opinion—and this merely is an opinion—is that the companies will be able to obtain whatever rate is desired by the companies. There is not any competition among them. They fix the rates, they fix the terms, they fix the conditions of the insurance contract.

Mr. PLOESER. Couldn't that be accomplished without the pool? They have these other organizations.

Mr. McKITTRICK. Not so easy; and that is the reason they organized this insurance pool.

Mr. PLOESER. Let me give you some of the background of the original purpose of an insurance pool.

Some of their functions today may be directly in line with what you say. The original reason for the establishment of the insurance pool method embodied the purpose of insuring special hazard risks, such as oil, special manufacturing, grain or cotton and other types wherein there existed a heavy concentration of values subject to special hazards. Various companies joined together to make available an adequate amount of insurance to take care of these extremely concentrated values, to eliminate the original experimental period of one or two companies which might experiment to their detriment and maybe to their complete failure. So the companies went together originally for the purpose of pooling their resources to insure these large special hazards, and to thereby pool their experience along with their resources, increasing the spread and eliminating a disastrous result for any one company.

I make that explanation because I do not believe that the original purpose of the oil insurance pool, and I won't say this as a fact, or any other of these pools, was to control rates because they had rate control organizations which might have been controlled without a pool. It was to make available adequate resources to carry that sort of special hazard. Now, what it has grown to be since that time is another question, and I am not prepared to say anything about that. I make this explanation for the enlightenment of the committee.

The CHAIRMAN. Without objection, we will stand recessed until 10:30 in the morning, and you gentlemen can come back then.

(Whereupon, at 12 o'clock noon, a recess was taken until 10:30 a. m., Tuesday, March 10, 1942.)

SMALL BUSINESS IN THE UNITED STATES

TUESDAY, MARCH 10, 1942

SELECT COMMITTEE TO CONDUCT A STUDY
AND INVESTIGATION OF THE NATIONAL DEFENSE
PROGRAM IN ITS RELATION TO SMALL
BUSINESS IN THE UNITED STATES,
Washington, D. C.

The select committee met, pursuant to notice, at 10:30 a. m., in the caucus room, Old House of Representatives Office Building, Hon. Wright Patman (Texas), chairman, presiding.

Present: Representatives Patman (Texas), chairman; Charles A. Halleck (Indiana), Leonard W. Hall (New York), and Walter C. Ploeser (Missouri).

Also present: Holmes Baldrige, Frank H. Elmore, Jr., Manual M. Gorman, and Frank W. Gaines, Jr., representing the Antitrust Division, Department of Justice.

The CHAIRMAN. The committee will come to order.

Gentlemen, you may continue where you left off yesterday.

Mr. ELMORE. Mr. Chairman, before the witness continues I would like to make a brief explanation for the record. Mr. Hyder left us somewhat unceremoniously yesterday, due to a pressing engagement at the United States Supreme Court, to be admitted to practice, and he was behind time.

STATEMENT OF HON. ROY MCKITTRICK, ATTORNEY GENERAL OF THE STATE OF MISSOURI—Continued

Mr. ELMORE. General McKittrick, yesterday I asked you if you had any figures which would reveal the cost to the member companies of maintaining the trade association machinery which was described by Mr. Hyder and yourself, using the charts, and which, according to your testimony, was designed primarily for the purpose of fixing and maintaining rates and forms. At that time you said that you did, but you were unable to locate the figures at the moment.

Do you have those figures now?

Mr. MCKITTRICK. Yes, sir.

Mr. ELMORE. Will you please state to the committee where you obtained this information?

Mr. MCKITTRICK. From the files of the Western Actuarial Bureau, the Chicago office.

Mr. ELMORE. How did you come into the possession of those figures?

Mr. MCKITTRICK. They were delivered to me by Mr. Hobbs, the manager of the Western Actuarial Bureau, through his counsel, Mr. Berger of Kansas City.

Mr. ELMORE. What years do these figures cover, General McKittrick?

Mr. MCKITTRICK. 1929, 1930, 1931, 1932 and 1933.

Mr. ELMORE. What are the totals shown for each of those years?

Mr. MCKITTRICK. These figures are the figures only of the inspection bureau of the respective 18 States and the audit bureau of those States. They do not include the expenses of the organizations, such as the Western Actuarial Bureau, Western Underwriters' Association, and of the associations that govern the respective audit and rating bureaus of the respective States.

Mr. PLOESER. General, you are not contending—or, are you contending—that the expenses of the inspection and audit bureaus are excessive?

Mr. MCKITTRICK. Yes; they are excessive, and they are paid out of the premiums and according to the premiums written by the respective companies.

Mr. PLOESER. How would you pay them? The only income of the insurance company is the premium plus a little interest which is continually diminishing.

Mr. MCKITTRICK. Well, they have their investment income, which has never been taken into consideration with reference to rate making.

Mr. PLOESER. Why should it be?

Mr. MCKITTRICK. How is that?

Mr. PLOESER. Why should it be?

Mr. MCKITTRICK. Because the money they invest is derived from insurance premiums.

Mr. PLOESER. Partly.

Mr. MCKITTRICK. All of it.

Mr. PLOESER. Oh, no.

The original capital investment is there.

Mr. MCKITTRICK. Yes; but that is very insignificant with any of these companies.

Mr. PLOESER. According to the figures we got from the Department of Justice, it is not insignificant.

Mr. ELMORE. May I interrupt you?

As I understand it, General, your interest in these figures is this, that you are contending in your action under the Missouri antitrust laws, that the rate-making machinery which is paid for by the money shown on the documents before you is illegal.

Mr. MCKITTRICK. Yes; it is illegal, no question about that, in my opinion.

Mr. ELMORE. And that these expenses, therefore, regardless of the funds which are used to defray them are unnecessary expenses because they are illegal?

Mr. MCKITTRICK. That is correct.

Mr. PLOESER. That is probably one of the most ridiculous statements I have heard.

You say they are unnecessary because in your opinion they are illegal.

Mr. MCKITTRICK. That is right.

Mr. PLOESER. You would not try to also contend, would you, that because they are unnecessary, they are illegal?

Mr. McKittrick. No; that would not necessarily follow, from the public standpoint.

Mr. Ploeser. First of all, before you write up a fire-insurance policy, you have to have a rate to write up the premium, do you not?

Mr. McKittrick. Certainly.

Mr. Ploeser. Who is going to make the rate?

Mr. McKittrick. One or two systems are provided; a public rating bureau, someone who is disassociated from the profits.

Mr. Ploeser. Who will pay for it?

Mr. McKittrick. How is that?

Mr. Ploeser. Who will pay for it?

Mr. McKittrick. The State should pay for it. The public pay for it in the first instance.

Mr. Ploeser. You want to turn this over then, into another State agency, so that the State can stand the expense of all fire insurance rate making.

If you do, I do not know why you are before the Federal Government, because that has nothing to do with the Department of Justice or the Federal Government. But, nevertheless, you contend that the State should pay the expenses on fire insurance rate making.

Mr. McKittrick. I do not intend to say the State should, but some governmental agency, whichever is better. I would not attempt to say which is better.

Mr. Ploeser. It has to come out of taxes then, does it not?

Mr. McKittrick. I imagine that it must eventually. The Federal Government will do something with reference to that, in regard to these fire insurance companies.

Mr. Ploeser. But it does have to come out of taxes if the State maintains it, does it not?

Mr. McKittrick. Certainly. It is better to come out of taxes than it is to come out of the pockets of people who are now paying unjustified and unreasonable sums.

Mr. Ploeser. You are making that assumption.

Mr. McKittrick. No, I am not making that assumption. That is based upon the record.

Mr. Ploeser. Let us take it step by step. You are an attorney and I am not. You think logically, and if you think logically, you, first of all, have to decide what is a reasonable way to pay for the making of an insurance rate.

If I spent \$10 a year on fire insurance and Mr. Halleck spent \$10,000 a year on fire insurance, but I pay more in taxes because of the land I own than Mr. Halleck does, is there any reason why I should pay the bulk of the fire-insurance rate bill to make up the new State department you want, while Mr. Halleck is getting the greater benefit?

Mr. McKittrick. If I were called upon to advise the committee, I would not base the tax rate upon any such basis.

Mr. Ploeser. How would you base it?

Mr. McKittrick. I would base it upon the amount of insurance that I paid. That is what the companies are taking from the policy-holders now.

Mr. Ploeser. Then the easiest way to do it is through a premium tax; isn't it?

Mr. McKittrick. Payable by the insured; yes, sir.

Mr. Ploeser. What are you going to have? A new stamp tax?

Mr. McKittrick. What is that?

Mr. Ploeser. Are you going to have a new stamp tax?

Mr. McKittrick. I do not know what you would call it.

I am not recommending any law, I am simply submitting the facts to this committee.

Mr. Halleck. I would kind of like to know what we are driving at here.

I would like to have it make a little more sense to me. I do not know much about the fire-insurance business, but from what I have heard of it, it is run as a private enterprise and the fixing of rates and premiums is apparently largely done by this association or organization that you and your associates have described.

Now, is it your contention that that situation has resulted in the charging of rates that are too high and that you want to substitute for it something in the nature of governmental regulation?

Mr. McKittrick. That is correct.

Mr. Halleck. Like we govern, say, the public utilities?

Mr. McKittrick. That is correct. You are absolutely right. That is a sound theory.

Mr. Halleck. That is what you are getting at?

Mr. McKittrick. That is correct.

Mr. Halleck. In other words, that the fire-insurance companies should be regulated as public utilities?

Mr. McKittrick. No question about that. It must come to that.

Mr. Halleck. And that the Government fix the rates that shall be charged. Is that what you are getting at?

Mr. McKittrick. Yes, sir; and that must happen.

Mr. Halleck. Now, you do not want the restoration of a competitive system?

Mr. McKittrick. It cannot operate.

Mr. Halleck. That is what has been running through my mind.

Apparently you are complaining very violently of this organization of the companies or this association that undertakes to determine what rate shall be charged.

Mr. McKittrick. How is that?

Mr. Halleck. I say apparently you have been violently complaining about that. While I have been listening to that, the thing that has been running through my mind is if you did not have such an organization as that, you would have absolute chaos, would you not, in the industry?

Mr. McKittrick. I do not think so.

Mr. Halleck. If you did not have governmental regulation in the nature of public utility regulation, fixing charges, if you throw it clearly into open competition, would not you have chaos?

Mr. McKittrick. I am not enough of an expert on that subject to answer your question correctly.

Mr. Elmore. Mr. Congressman, may I ask two or three questions that would clarify it?

Mr. Halleck. I would like to ask him. He is a smart fellow, he knows what this is all about.

Mr. McKittrick. Thank you, sir.

On the competition that there is existing, it does not create any chaos, because it is not very much. The mutuals and reciprocals can be organized.

Mr. HALLECK. Let us put it this way, because I would like to know what you are driving at here. If you did not have this association of the companies through which they meet and act to fix what I would call standard rates—I do not know whether that is a fair characterization or not—and by which they make a schedule which they all abide by, subject to the penalties of fines that we talked about yesterday, if you do not do something like that and every company was fixing its own rates on insurance, what would be, in your opinion, the result of that?

Mr. McKITTRICK. That would result in the management of each respective company determining it for itself. Now, nobody would force a company to take a policy, and each company would know whether or not it could write a policy profitably or unprofitably. It would be the same as any other competitive business.

The mutual insurance writes insurance from 30 to 40 percent less than these organized companies.

Mr. HALLECK. Do you think that that would work into some such arrangement as that?

Mr. McKITTRICK. I do not know. It would be speculative.

Mr. HALLECK. You cannot have public regulation, with the fixing of rates, and have competition, too, can you?

Mr. McKITTRICK. No.

Mr. HALLECK. In other words, if you have public regulation in the nature of public utility regulation, then immediately competition is gone, because everybody has to operate according to the rates that are fixed, that is competition based on price.

You could still have competition based on service or the strength of the company, or something of that sort, but you would not have competition in the price for the service you perform.

Now, which way do you think that ought to go?

In other words, are you complaining of the restrictive practices and therefore want the whole field thrown open to competition between the companies under a system by which each could fix its rates for a given amount of fire insurance in a given locality and make its own contract with the customer or do you want either the State or the Federal Government to step in and regulate the fire-insurance companies and fix their rates, just like, for instance, the I. C. C. fixes the freight rates of the railroads?

Mr. McKITTRICK. I think it is just as important to the people that you have some Federal regulation as it is to have Federal regulation with reference to railroads.

Mr. HALLECK. Yes, but you do not specifically answer my question. You have been in this; you have studied the problem and you know the conditions, from what you have seen of it. Do you want us to return to open competition by some action doing away with this organization, the Underwriters' Association or something of that sort, that standardizes rates, or do you want us to go the other way, in the direction of governmental operation, to fix the rates that are to be charged and to control the whole industry?

Mr. McKITTRICK. Answering your question more specifically, I should say there should be some Government restraint. Now, the nature of it, or the tie-up of it, I would not undertake to say.

Mr. HALLECK. I do not think that answers the question at all, because you cannot blow hot and cold about this thing. You are

either going to have competition, or you are going to have governmental regulation something like you have now.

Mr. McKittrick. Not necessarily, Mr. Halleck. In insurance projects, you might have Government regulation with reference to rates, but then your terms and your contract itself enters into it.

Mr. Halleck. Do I understand that you have filed some anti-trust suits in Missouri that challenge the arrangement by which these rates are fixed and made?

Mr. McKittrick. Well, one suit against 134 companies.

Mr. Halleck. You do have one such suit pending?

Mr. McKittrick. Yes, sir.

Mr. Halleck. If that suit should prevail, would open competition between the companies then be in order?

Mr. McKittrick. Yes; to the extent that the Supreme Court of Missouri would retain jurisdiction of the company—the companies and make them comply with the laws of the State, and thereby that would force them to have competition.

They could not operate this organization that they now operate.

Mr. Halleck. If you had open competition like that, would you need any Federal regulation at all?

Mr. McKittrick. I still think you would.

Mr. Halleck. To what extent should it go?

Mr. McKittrick. That, Congressman, is a subject that I do not feel qualified to go into.

Mr. Halleck. Let me ask you this; if you had that sort of open competition, would the little fellows profit by it as against the big fellows in the business?

Mr. McKittrick. Absolutely.

Mr. Halleck. You think they would.

Mr. McKittrick. No doubt about it.

Mr. Ploeser. Would not the contrary be true, that you would crush out the little business?

Mr. McKittrick. The small fellows?

Mr. Ploeser. Of course.

Mr. McKittrick. I do not think so.

Mr. Ploeser. Your study, as you go into this problem further, will indicate that that is one reason why regulation came about in the States, to preserve the interests of the little fellow.

Mr. Halleck. Mr. Chairman, I must go to the Rules Committee meeting. I am a little late there now. I want you to understand why I could not be here the rest of the morning. This is a small business committee, as I understand it, primarily charged with determining something about the impact of the defense effort on small business as distinguished from big business.

I take it, as far as this particular matter under consideration is concerned, that it has no particular reference to the war effort, that it is a situation that has existed, as pointed out yesterday, for some time.

Mr. McKittrick. Because it has existed is not any reason why, in my opinion, if you please, it does not have a particular interest at this time. Because of the war situation, the insurance situation increases, the burden increases.

Mr. Halleck. You think the situation that the country now finds itself in accentuates the necessity for some consideration?

Mr. McKittrick. There is no doubt about it, Congressman.

Mr. ELMORE. Why, General?

Would you say that the factor of fire insurance is a fixed charge which small business must meet, come weal or woe?

Mr. McKITTRICK. That is right.

Mr. ELMORE. And that when small business is affected by the exigencies of the war program, any high or unreasonable charge of a fixed nature is one which is pertinent for consideration as a problem of small business?

Mr. McKITTRICK. That is absolutely true.

And it is further true if you take grain that is insured, the corn and wheat in these elevators, where they borrow money on grain of all types, it is these companies that fix the cost of that insurance, and they fix it at what they say you should pay.

It is deducted from the people who ship the grain, who borrow money from the Government, as part of the carrying charges. They fix a rate which is unfair and unreasonable.

Mr. PLOESER. General, there is not any relationship between the impact which has been caused generally to the Nation by the defense industry, or the war industry, and this particular situation, is there?

Mr. McKITTRICK. I respectfully differ with you.

Mr. PLOESER. You have a right to.

Mr. ELMORE. If I may just ask Mr. McKittrick—

Mr. PLOESER. Just a minute. This is not a hearing of the Justice Department, as I understand it, but rather a hearing of the small business committee.

The CHAIRMAN. If the Justice Department want to be heard they are entitled to be heard, just the same as anybody else.

Mr. PLOESER. That is right.

I do not object to their being heard, but I do object to their interposing questions before the members of the committee are through.

Mr. ELMORE. I beg your pardon, sir, if I seemed to do that.

Mr. PLOESER. You have not offended. I just did not want you to interrupt too often.

You said a moment ago that you would be for rate regulations, but you would be for complete freedom, as I understand it, of forms and coverages.

Now, in your study of the insurance business—

Mr. McKITTRICK (interposing). Pardon me, Congressman. Forms and coverages affect the rates.

Mr. PLOESER. That is what I want to bring out. In Mr. Halleck's questioning, I might have misunderstood. What I thought I understood was this, that you thought rates should be regulated but there would be freedom in this enterprise left to the extent that companies could write their own forms and coverages.

Mr. McKITTRICK. Now, that could not be.

Mr. PLOESER. Of course it could not be.

Then I probably misunderstood you.

Mr. McKITTRICK. Yes; that could not be.

Mr. PLOESER. In other words, if you are setting a rate, it has to be set for a definite form, does it not?

Mr. McKITTRICK. That is right.

Mr. PLOESER. Now, you said also that the mutuals write this business at savings, at lower rates than do the stock companies. I

think it is only fair for you to point out there, General, that because of the rate-making facilities set up by the stock companies, there are many other companies, mutuals and reciprocals included, who do not contribute to the maintenance of those rate-making agencies but, nevertheless, take those rates without the expense involved in the creation of them and start from there with their cuts, in order to arrive at lower costs in selling any insurance, and there always will be without adequate State regulation—and you understand I am opposed to Federal regulation, let us have no misunderstanding on that point—without adequate State regulation, there will always be the scavenger who will come along and take what the other man created at his expense and use it to his profit.

Now, that has been going on in the insurance business because States like Missouri have inadequate insurance codes to regulate and to maintain the business of insurance as it should properly be done.

Missouri is way behind in its insurance code, and that is the failure of the Government of the State of Missouri, not to create that proper insurance code. Your first recommendation should be to your legislature to revise this insurance code.

There are States that have rather adequate codes. We frequently hold New York State out as an example of a competent and adequate insurance code, and yet it is constantly being revised by the Legislature of New York to make it more workable.

Now, Missouri is way behind. I have been one who has advocated the tightening up of our code for many years. I have had opposition from my own industry, and complacency from the legislature and from the insurance department under its past nefarious way of doing business.

One reason why there has not been any progress made in the State of Missouri in the last few years is because of the rotten management of the State government. The penitentiary is taking care of a part of them now.

I want that clear in the record, because while I know you are here trying to do a sincere job, nevertheless there are conflicting purposes in your purpose and the purpose of the Justice Department.

One is to get at monopoly, because, as I remember it from the news dispatches of probably 1937 or 1938—I have not been able to locate them in my files—some braintruster suddenly discovered that the insurance business—life, casualty, and fire, the entire insurance business—was taking in more money and expending more money each year than the Federal Government and some threw up their hands in great horror and said, "My goodness, that cannot be. The Government should spend more money and take in more money than any other enterprise.

So they started a witch hunt to try to make something out of it.

If they can find a monopoly, I will help them prosecute up to the end and break it up, but this committee is not on a witch hunt. You have a different purpose. You had a concrete case. Your case was to bring about a fair treatment of the policyholders in the State of Missouri. You are not concerned with Illinois, New York, or California.

The CHAIRMAN. Let us see if there is any difference between the Justice Department and Attorney General. The Justice Department is after monopoly, that is true, while the Attorney General, from his

testimony, is opposed to monopoly. As I understand it, you are willing to have the competitive system, if there is actual competition?

Mr. McKittrick. You are talking to me?

The CHAIRMAN. Yes.

Mr. McKittrick. Yes, sir.

The CHAIRMAN. But, since you have been convinced that you cannot have actual competition with the groups operating as they are, then you believe there should be some sort of Federal restraint?

Mr. McKittrick. That is correct. May I say this?

The CHAIRMAN. Yes, sir.

Mr. McKittrick. The issue, if you want to call it monopoly, is which kind you are going to have, a Government monopoly or privately owned industry.

Mr. Elmore. May I interject there, just a moment, in order to make the position of the Department of Justice clear?

The CHAIRMAN. Yes, sir.

Mr. Elmore. The Department of Justice disclaims any interest in or advocacy of Federal regulation.

Mr. Ploeser. I am glad to see that go in the record, and I am going to remind the Department frequently of that.

Mr. Hyder. You said awhile ago the mutuals did not pay anything for the creation of the rating systems. If they use them, they pay the same as the stock companies for the use of them. If they do not use them, they have to provide their own rating system; if they can keep a rate low, using their own system, then certainly a stock company could write a rate using this cheaper rating system.

Mr. Ploeser. But there is one other factor involved, and that is the existence of the local agent.

Mr. Hyder. The mutuals have local agencies.

Mr. Ploeser. Very few of them.

Mr. Hyder. It is hard for them to fight your capital.

Mr. Ploeser. Don't say my capital, because no one thing has an uphill fight more than my capital.

The CHAIRMAN. Suppose we let Mr. Elmore proceed with the interrogation and see if we cannot get through with this.

Mr. McKittrick. Before you ask a question, I want to say this: That I would rather trust the Federal Government and the representatives of the Federal Government in protecting the people in the insurance field than the gentlemen who are now controlling it.

Mr. Ploeser. That is an indictment of your own State of Missouri.

Mr. McKittrick. No; it is not.

Mr. Ploeser. It is, in my opinion.

It is a compliment to us, because we are part of the Federal Government, but it is an indictment of State government.

Mr. McKittrick. Not State government.

Mr. Elmore. Let us get on with the facts.

The CHAIRMAN. Go on, Mr. Elmore.

Mr. Elmore. General, I do not believe you answered my last question probing the facts which was, I believe, asking you to give the totals of the expenses, year by year, of the rate-making and maintenance machinery of the western area.

What are they?

Mr. McKittrick. In 1929, \$18,397,486; in 1930, \$17,945,307.

Mr. Ploeser. That is for the whole Nation?

Mr. **ELMORE**. No; that is for the western area.

Mr. **HYDER**. For the 18 States.

Mr. **McKITTRICK**. 1931, \$17,038,957; in 1932, \$15,249,204; in 1933, \$13,539,843.

Mr. **ELMORE**. Now, let us pass from that to the nature of the agreements which you have charged, I understand, in your Missouri proceeding against the insurance companies, as being unlawful under the Missouri antitrust laws.

What evidence, do you have, General, that these companies have agreed on rates to be charged?

Mr. **McKITTRICK**. You mean the nature of the evidence?

Mr. **ELMORE**. Yes.

Mr. **McKITTRICK**. They have the rules of practice.

Mr. **ELMORE**. They have the rules of practice of the Western Underwriters' Association, is that correct?

Mr. **McKITTRICK**. Yes, sir.

Mr. **ELMORE**. Is this volume which I hold in my hand a copy of those rules of practice?

Mr. **McKITTRICK**. Yes, sir.

Mr. **ELMORE**. Where did you obtain this?

Mr. **McKITTRICK**. From the Western Underwriters' Association manager, Mr. Thomas.

Mr. **ELMORE**. Is this in evidence in your Missouri proceeding?

Mr. **McKITTRICK**. Yes, sir.

Mr. **ELMORE**. And for that reason it is impossible for you to offer it in evidence here, is that correct?

Mr. **McKITTRICK**. Yes, sir.

We can furnish you a copy.

Mr. **HALL**. Can you identify it by its title?

Mr. **ELMORE**. Its title is Members' Edition, Rules of the Western Underwriters' Association.

The **CHAIRMAN**. Instead of inserting the whole thing, why don't you just pull the excerpts from it that you would like to have quoted?

Mr. **ELMORE**. Mr. Chairman, we planned to read those excerpts in the record.

The **CHAIRMAN**. Suppose you, in revising your remarks, just quote those, unless they are particularly interesting to some part of the testimony?

Mr. **ELMORE**. I think they are. They are not very long, in any event.

The **CHAIRMAN**. All right.

Mr. **ELMORE**. On page 39 of the Rules of the Western Underwriters' Association appears rule 26:

All rules of practice as adopted in each State and appearing in the respective State rules books are mandatory as published.

What is the publication referred to as: "State Rule Book" in Missouri?

Mr. **McKITTRICK**. That is the rule book that is filed in the office of the superintendent of insurance pertaining to rules, charges, credits, terms, privileges, riders, forms, and conditions.

Mr. **ELMORE**. Do you hold a copy of such book in your hand?

Mr. **McKITTRICK**. I do.

Mr. **ELMORE**. Where was this obtained?

Mr. McKittrick. This was obtained from Paul Terry's office, manager of the Missouri Inspection Bureau, St. Louis.

Mr. Elmore. Is this likewise in evidence in the Missouri proceedings against the insurance companies?

Mr. McKittrick. Part of it.

I am not sure that all of it is.

Mr. Elmore. Portions of it?

Mr. McKittrick. Certain portions of it.

Mr. Elmore. With the chairman's permission, we will adopt the same procedure in regard to this.

The Chairman. Yes, sir.

I wish you would not go too much in detail, like trying a lawsuit. I do not think we are confined to the rules of evidence like they are in the courts.

I think you can just be a little bit more liberal in your conclusions.

Mr. Elmore. All right.

The title of this book is "Rule Book of Rules, Charges, Credits, Terms, Privileges, Riders, Forms and Conditions affecting the Cost of Fire, Life and Windstorm Insurance in Missouri," published by the Missouri Inspection Bureau.

Does this book set forth specifically the rates required to be charged on various classes and types of risk in Missouri?

Mr. McKittrick. Yes, sir.

They are suggestions recommended by the Western Actuarial Bureau, Chicago, first, and then sent to the Missouri Inspection Bureau and they, in turn, deliver it to the Missouri Insurance Department and the same procedure is followed where they have inspection bureaus in the other 18 states.

Mr. Ploeser. Each rate is not made by the Western Actuarial Bureau, Chicago, is it?

Mr. McKittrick. Each rate is made by the Western Actuarial Bureau of Chicago; yes, sir.

Mr. Ploeser. Is it not true, General, that the specifically rated risk is rated by fire-insurance engineers in the Missouri Inspection Bureau in the State of Missouri, and filed and published right there?

Mr. McKittrick. No, sir. They take the rate that is recommended by the Western Actuarial Bureau and apply it to each individual risk.

Mr. Ploeser. You mean they take the rate formula, don't you?

Mr. McKittrick. They take the rate formula.

Mr. Ploeser. And each individual commercial risk, for example, has its own individual rate, is that not true?

Mr. McKittrick. The formula is used by the Missouri Inspection Bureau to apply to each individual risk.

Mr. Ploeser. But the individual rate is made in Missouri by the Missouri Inspection Bureau and is not passed on by the Western Actuarial Bureau at any time?

Mr. McKittrick. In compliance with the formula.

Mr. Ploeser. That is right.

Mr. Elmore. General, have you found that similar agreements exist with regard to commissions and forms?

Mr. McKittrick. Yes, sir.

Mr. Elmore. These are also evidenced by appropriate rules in the two volumes to which you have referred, is that right?

Mr. MCKITTRICK. Yes, sir.

Mr. ELMORE. With regard to forms, would you please state what these four documents are?

Mr. MCKITTRICK. These are the forms adopted by the Western Underwriters, what they term the optional coverage policy, Kentucky, Ohio, Oklahoma, Tennessee and Illinois optional coverage policy, Nebraska, North Dakota optional coverage policy and Iowa standard optional coverage policy.

Mr. PLOESER. Is there one there from Missouri?

Mr. MCKITTRICK. Not here.

Mr. ELMORE. Those are merely samples, as I understand it?

Mr. MCKITTRICK. Yes; they are merely samples.

Mr. PLOESER. You are really interested in Missouri, are you not?

Mr. MCKITTRICK. The same interest applies to all these 18 States, I mean, the same situation.

Mr. PLOESER. Yes, but I do not think it is the province of the attorney general of Missouri to rule the 18 States on insurance matters.

Mr. MCKITTRICK. No; we are not ruling them on insurance matters.

Mr. ELMORE. Mr. Hyder will explain the operation of this machinery.

STATEMENT OF ROBERT L. HYDER, ASSISTANT ATTORNEY GENERAL, STATE OF MISSOURI

Mr. HYDER. As I understand it, we have attempted to depict for you the machinery in a stationary state, and now we want to show how that operates.

Mr. ELMORE. Will you please explain the manner in which the trade association machinery for rate-making and maintenance operate with emphasis on the method employed in maintaining the rates and forms?

Mr. HYDER. Well, I believe that was largely covered yesterday in my explanation of the chart, showing how the audit bureau operated.

Mr. ELMORE. What I intended to imply by that question was that you explain the policing methods employed.

Mr. HYDER. If a complaint is made by any agent or by any company which is a member of this association, that is, the Western Underwriters' Association, to the governing body of that association, it will immediately send a bulletin to all members, to be answered by all members on behalf of all member companies.

I have here some examples of that. To take a specific illustration, here is a bulletin sent out by the Western Underwriters.

These are supposed to be confidential and were secured from the original files with the permission of the manager. They asked these questions. For example, there is one in here from Illinois and there is one in here on Missouri.

Someone has complained that one of these member companies wrote a certain piece of property at a less rate than that which had been agreed upon, so this bulletin was sent to all members:

The first question asked was:

Are you interested?

That is, do you have a policy on this property?

The property is described by the street number and town.

Second, at what rate?

Third, for what term?

Fourth, date of policy?

Now then, all members are bound under a penalty to answer this bulletin correctly.

If it discloses that this company has written at a less rate, that information is thereupon available to the governing committee, and if the member refuses to correct it on their request, he is brought before the grievance committee and may be assessed.

It is termed "unfriendly conduct" in their rules, if you fail to abide by any of their agreements, and you may be fined from \$100 to \$1,000.

We have in our records many instances in which fines have been levied in, I think, all of the 18 States, or approximately 14 or 15 of them, including Missouri, in the Midwest.

Mr. ELMORE. Does that answer that question?

Mr. PLOESER. Yes.

Mr. ELMORE. What do you understand, Mr. Hyder, is meant by the practice referred to in the insurance business as "Separation"?

Mr. HYDER. The rules of the Western Underwriters' Association require that any agent representing any company which is a member of this association cannot represent any company which is a non-member of this association.

Mr. PLOESER. Does that rule apply throughout the entire 18 States?

Mr. HYDER. In three States, so you may get the whole picture—Iowa, Nebraska, and Ohio—there is a very strict law against that very thing, so that they have not fined members for that specifically. They term it "unfriendly conduct" among themselves, if they violate the separation rule in those three States. In the other States it is enforced strictly, so far as we have been able to find.

Mr. PLOESER. Is it enforced in the State of Missouri?

Mr. HYDER. Yes, sir.

Mr. PLOESER. Throughout the entire State of Missouri?

Mr. HYDER. Their records disclose that they have had a great deal of difficulty in the city of St. Louis alone, but elsewhere it has been enforced strictly, and we find where they have made attempt to enforce it strictly in the city of St. Louis.

Mr. PLOESER. How recently?

Mr. HYDER. It ran, I think, mostly up to 1937. They seemed to have made some sort of trilateral agreement in St. Louis which we are not particularly concerned with, because it applies to that part of the State alone.

Mr. PLOESER. Is it not true that in the city of St. Louis, we have a sort of a labor union among insurance agents, known as the "Insurance Board" now, formerly known as the "Fire Underwriters' Association"?

Mr. HYDER. That is right.

Mr. PLOESER. This rule does not apply to the city of St. Louis at all.

Mr. HYDER. Apparently, it has not been enforced strictly.

Mr. PLOESER. For many years?

Mr. HYDER. No; that is not true.

Mr. PLOESER. Well, how many?

Mr. HYDER. In 1935, they started their efforts to enforce their rules strictly in the city of St. Louis. They worked at it fairly well for 2 or 3 years. I am only going from what their records show, the minute books.

Mr. PLOESER. The reason I asked, I was a member of the Fire Underwriters' Association prior to 1935, I think about that time, a member of their executive board. I have been a member of the Insurance Board since its existence by that name, and I have always operated with what we call mixed companies, representing both affiliated and unaffiliated companies.

There has never been any effort to separate me, because St. Louis, as a matter of fact, under this same association, is called an excepted city.

Mr. HYDER. That is right.

The excepted cities are named here.

In 1935 they passed a resolution that they would not strictly enforce it in St. Louis.

Mr. PLOESER. It has not been enforced?

Mr. HYDER. It has not been enforced strictly.

Mr. PLOESER. That applies to everything in St. Louis and St. Louis County?

Mr. HYDER. That is right.

Mr. PLOESER. I do not contend that that system is right.

Mr. ELMORE. We would like, briefly, to read into the record the rules of the Western Underwriters' Association touching that subject.

The CHAIRMAN. Proceed.

Mr. HYDER. Here is the rule of the Western Underwriters showing their authority to do that.

It is rule No. 7 in the articles of agreement. It states:

The association shall have full power and authority to require, as to such localities as it may designate, that no member shall enter and remain in an agency while such agency represents a company or companies whose officers, general agents, or managers are not members of this association.

The CHAIRMAN. Gentlemen, the point you are attempting to make is, the way I construe it, that a few companies have just gotten control of the fire insurance business.

Mr. HYDER. That is exactly it.

The CHAIRMAN. And through their organizations and set-up, which you have disclosed they, in effect, have a government of their own.

Mr. HYDER. That is true.

The CHAIRMAN. They not only fix the rates which even the Government must pay if it indirectly insures the property, but all individuals and corporations must pay, and if there are companies that are affiliated and do not comply they are required to pay a penalty, just like assessing a fine against them.

Mr. HYDER. That is exactly right.

The CHAIRMAN. As a government would do?

Mr. HYDER. Yes.

The CHAIRMAN. I presume the point you especially want to emphasize is the fact that the State cannot possibly handle this situation.

Mr. HYDER. That is true.

The CHAIRMAN. It is a matter for the Federal Government to take up, and the quicker the Federal Government takes it up the quicker

the people will be relieved from what you construe to be an untrue and harsh burden that is imposed on all the people.

Mr. HYDER. That is the picture exactly.

The CHAIRMAN. Is that right?

Mr. HYDER. Yes, sir.

You have it well summarized.

Mr. PLOESER. Is it not true that some States have successfully handled the rating situation?

Mr. HYDER. No State has successfully handled the rating situation, because if a strict bill is presented, the lobby organization of these insurance companies has generally prevailed; and that law has not gone over.

The CHAIRMAN. That is like the utilities commissions throughout the States. Everyone knows they were not a success.

Mr. PLOESER. Don't you think Missouri is in a particularly favorable situation right now not to worry about lobbies?

Mr. HYDER. I would like to say—

Mr. PLOESER (interposing). Answer my question.

Don't you think Missouri is in a particularly enviable position right now as regards lobbies?

I do not think, after all the scandal we have had in Missouri, with the insurance department, with Mr. Pendergast and with other lobby activities in the State, that we need to worry much about lobbies having an influence on the legislature for a while.

Mr. HYDER. The legislature is not in session right now.

Mr. PLOESER. But it will be pretty soon. It would not hurt you to be ready for it.

Mr. HYDER. It will be about 8 months.

Mr. PLOESER. You will be ready with the insurance code?

Mr. HYDER. Yes.

Mr. PLOESER. I hope so.

Mr. HYDER. We have a rating law in Missouri, you know, after a fashion.

Mr. PLOESER. I know.

Mr. HYDER. The man who approves the rate is a former employee of Paul Terry of the Missouri Inspection Bureau today and the man he replaced is now back with Paul Terry.

Mr. PLOESER. I do not know what man you are talking about.

Mr. HYDER. He formerly was with Paul Terry.

Mr. PLOESER. It does not matter. Let us be fair with these men. An insurance fire rating engineer has not many places to be employed.

Mr. HYDER. That is right.

Mr. PLOESER. If an insurance department or rating bureau does not employ him, he is starving to death, so it is not any indictment of the individual if, when he gets through working with the insurance department, he goes to the rating bureau to work.

Mr. HYDER. If the insurance department employ a rating expert, as they are supposed to do—

Mr. PLOESER (interposing). Who says the insurance department must employ a rating expert?

Mr. HYDER. Each company is supposed to, according to the theory of our statutes.

Mr. PLOESER. Of course, under the present practice, they pool their experience.

Mr. HYDER. That is right.

Mr. PLOESER. It is likewise true, for instance, if you and I operated, say, a \$1,000,000 stock fire insurance company that we could not begin to operate it as economically if we had to establish our own rating bureau.

Mr. HYDER. But the court said each company should fix its own rates. It specifically said that.

Mr. PLOESER. I am not condoning a combination which tries to put together a rate, do not misunderstand me, but I am saying, when you get all through, you are going to learn there is going to have to be some source, contributed to either by taxation or by premiums, that will set up at least an advisory rate, because it is too expensive for each insurance company to maintain their own rating bureaus.

If they do, the premiums will go up instead of down.

Mr. HYDER. It has been done, and it is being done.

Mr. PLOESER. It will have to be an awfully big company.

Mr. HYDER. I think it is now the smaller companies who have their own rating system.

Mr. PLOESER. Name one.

Mr. HYDER. Several were mentioned awhile ago that were not in with the stock companies.

Mr. PLOESER. But they use the same rate, they subscribe to the same inspection bureau, or else they get it by devious methods.

For instance, you can get the same rates out of an agent's office, can you not?

Mr. HYDER. But the rates that are being charged have been established for some time.

Mr. PLOESER. You break all this down and you see if you have no rating bureau, those companies will have to charge an exorbitant premium, because they will have to get their own ratings.

Mr. HYDER. Most businesses operate by fixing their own production costs.

The CHAIRMAN. Mr. Ploeser, Mr. Hall has suggested instead of going into all of the details in the testimony, that would probably be introduced, we allow these gentlemen, to enlarge upon it in the record, and after they get through, when we have it printed, then we can study the record and determine whether we shall go into it further, and if so, to what extent, and how it shall be gone into.

Would that be satisfactory with you gentlemen?

Mr. ELMORE. Yes, sir.

The CHAIRMAN. And you, Mr. Baldrige?

Mr. BALDRIDGE. Yes, sir.

Mr. HALL. This suit is still pending in Missouri?

Mr. HYDER. Yes.

Mr. HALL. All of the facts are going to come out in that suit?

Mr. HYDER. Yes, sir.

Mr. HALL. In other words, we are listening to evidence which has already been presented in the lawsuit?

Mr. HYDER. Some of it; yes, sir.

Mr. PLOESER. This is the point I would like to make, Mr. Chairman: The attorney general and his assistants, are after all, a long way

from home. They have come down here for a definite purpose. Out of courtesy to them, I want them to be heard even though what we are hearing is not, in my opinion, within the province of the committee.

Let us call it an extracurricular hearing.

I think enough of these gentlemen that I want them to have their day, when they are so far from home. After all, they are my home folks.

The CHAIRMAN. I consider the suggestion to be satisfactory to you; is that right?

Mr. ELMORE. Yes.

Mr. HYDER. Yes.

Mr. HALL. In other words, as I understand it, you are giving all of this evidence here today and yesterday to follow up to a recommendation; is that right?

Mr. HYDER. That is right.

The CHAIRMAN. And that recommendation you have made?

Mr. HYDER. That is right.

Mr. HALL. Could you not extend that in the record?

We would have the result that you want us to have by extending in the record.

Mr. ELMORE. Mr. Chairman, would it be consistent with your course of action if these gentlemen were to file with the committee, for inclusion in the record, a statement which would summarize the Missouri case?

The CHAIRMAN. Certainly. That would be desirable.

Mr. ELMORE. And make whatever recommendations they saw fit to make?

The CHAIRMAN. That would be desirable.

Mr. HALL. May I make this suggestion, however; are we going to reach a point in these investigations where certain statements will be made by you and then we will have to call some companies to refute them?

The CHAIRMAN. It depends on whether we will want to go into the matter further. If we do, we will listen to anybody who wants to be heard.

Mr. PLOESER. I think the chairman should make it explicitly understood by a statement in the record, whether or not this committee really has jurisdiction to hear the matter.

The CHAIRMAN. Yes; this committee has jurisdiction.

Mr. PLOESER. There is a disagreement on that, but I do have a suggestion that I want to make to you gentlemen.

I think, from your rating statement, you have a very involved, technical problem, which you might solve by adding some sort of a substitute.

It is obviously going to take a lot more study than apparently has been made on it.

I give you that after 20 years of experience in this insurance business. I cut my teeth on the book you offered in evidence.

From the standpoint of whatever point you attempt to make, or want to make on restraint of trade by the Western Underwriters' Association, or other similar association attempting to control the activities of agents by forcing certain company representation, I think you have a rather clear and well-defined point, and an important point. It does not involve the technicalities involved in rating

expenses and rating systems, which are tremendously involved, and are not normally within the scope of knowledge of lawyers.

Mr. McKITTRICK. The court of appeals said it was a very important part of rate making.

Mr. PLOESER. I do not say it is not an important part of rate making. My point is, it is tremendously important. In the extension on the record, you may enlarge upon the agency control methods of the companies.

Mr. HYDER. You mean, as to commissions?

Mr. PLOESER. The commissions are part of it, of course.

Mr. HYDER. That is right.

Mr. PLOESER. On the other hand, I find some sympathy with your cause. I do not think you have enough technical background built up to delve into the rate-making situation.

The CHAIRMAN. You see the importance of developing a full record here, and studying it. I consider it has an effect upon other lines of investigation and study. If we go into this fire insurance then, it would be necessary to go into probably other types of insurance. I do not know. I do not know whether it would be so closely related as to justify this committee doing it or not, but if this committee does not do it, I presume it will be at least sufficiently thought-provoking that some other committee, disturbed over the situation, would take it up.

Mr. BALDRIDGE. In that connection, may I say this for the record: Mr. Ploeser mentioned awhile back that the Department of Justice made a study of insurance companies in January 1937.

That study, if the committee please, was made by the Securities and Exchange Commission and presented to the Temporary National Economic Committee. It was concerned only with industrial life insurance and not at all with fire insurance. To our knowledge, this is the first hearing by any legislative committee on fire-insurance policies.

Mr. PLOESER. I would like to clarify that, because, when I made the statement, I said I was not positive where I got that, that I could not find it in my file, but I did remember such a witch hunt.

The CHAIRMAN. I have gone through copies of the hearings before the Temporary National Economic Committee, and I do not recall any hearings on fire insurance. That did not include casualty insurance either, did it?

Mr. BALDRIDGE. Beg pardon?

The CHAIRMAN. The investigation before the Temporary National Economic Committee did not include casualty insurance policies?

Mr. BALDRIDGE. No; it was confined to life and industrial.

Mr. PLOESER. The point I wanted to make was that the Department of Justice was not going out with these fool, new-fangled theories that because industry does a greater dollar volume of business than Government, that it is an obnoxious institution.

Mr. BALDRIDGE. Let me make the record clear on that.

That, to my knowledge, has never been the attitude of the Department.

Mr. PLOESER. Your associate made it very clear that they were not interested even in Federal regulations.

Mr. BALDRIDGE. It was brought out before the committee, as to any undue concentration of control in the fire-insurance industry in

a few hands, to the detriment not only of policyholders, but of small companies in the fire-insurance industry.

The CHAIRMAN. With the understanding that the record will be developed as suggested and discussed, we will withhold any comment or decision until after we have had an opportunity to study this record.

Mr. ELMORE. Will the chairman fix a time limit within which the additional material can be supplied?

The CHAIRMAN. What time would you suggest?

Mr. ELMORE. Two weeks.

The CHAIRMAN. That will be all right.

We will have this table that you submitted today and the charts that you submitted the other day, put in the record.

Mr. ELMORE. And the other matter we are to submit before the record is closed?

The CHAIRMAN. If you get it over by 5 o'clock this afternoon to room 114, it will be printed tonight and then you will have that to work upon in getting up the revision.

For the committee, the Chair desires to express thanks to you gentlemen for the information you have furnished, and you may rest assured that it will be given very careful consideration.

Mr. ELMORE. Thank you.

Before the record is closed, I should like to offer this table entitled, "Fire Experience Figures" in the Western States, along with the charts.

The CHAIRMAN. That is right.

(The matter referred to follows:)

The Insurance Executive Association is the nominal head of all insurance organizations in the United States. It was organized to unify the action of the four major regional organizations. It was organized in 1931 at the insistence of Paul Hald, who was then president of the American Fore Group, and who is now president of the association. The membership is nominally composed of the heads of the more important companies, but the assessments made for its upkeep are paid from the funds of the various companies whose officers are members.

All of the activities of this organization have not yet been proved, but it has been stated that it devises means of combining functions of various organizations in order to effect economy and in a general way it looks after proposed legislation before State and national legislative bodies. Any matter which is of importance to two or more regional organizations is usually presented to it. The four regional organizations are the Eastern Underwriters Association, the Southeastern Underwriters Association, the Western Underwriters Association, and the Pacific Board of Fire Underwriters. In the East rates and forms are originated in and presented by the committee on rates and rating methods of the Eastern Underwriters Association, headed by David Henckley. This organization communicates very frequently with Midwestern committees. In the Midwest the Western Underwriters Association, which is composed of 175 members representing 251 companies, and the Western Insurance Bureau in which the individual members represent 38 companies, are the dominant organizations. The two are dissimilar only in the amounts of commission paid to local agents. The articles of agreement, rules, and regulations of each of these organizations provide a definite, fixed commission to be paid all local agents throughout the Midwest on every class of fire and windstorm insurance. In the rules of each organization is found a provision that the members will maintain the rates fixed by an approved rating bureau or organization in any State. The managing official of the Western Underwriters Association frankly states that any company which pays a commission in excess of that provided in the rules is fined by the governing committee of such organization on the proof of infraction. The amount of a number of these fines has been shown in the record, and such companies may be fined not to exceed \$10,000. At one meeting 14 fines were levied on members writing contracts in the State of Missouri for violation of the commission rule.

In addition to governing commissions, this organization, on complaint from any member that some other member is using a form which has not yet been approved by the organization, or is writing at an improper rate, makes examination to determine whether or not the complaint is true. If true, the offending member is required to make correction to conform to the agreed rate or approved form within 45 days. So far as the minutes of the governing committee of this body show all rulings of the governing committee have been complied with in the required time. The rules provide that this committee may require cancellation of the policy and withdrawal from the State for a definite length of time upon failure to comply with any ruling of the governing committee. The rules of this association also provide that the daily reports, which are executed by local agents, describing the risk, amount of premium, name of the assured, etc., must pass through local audit bureaus. While in Missouri in some manner the insurance commissioner was induced to enter an order, which we believe to be clearly invalid, requiring all companies to send their daily reports to an audit bureau, this scheme was clearly devised in order that the various associations might have a clear check on all members to insure their writing at a uniform rate on the same forms. The Western Insurance Bureau, dominating the companies composing the loyalty group, appears to have levied no fines on members for violation of commission rules in Missouri, so far as we have yet ascertained. It may be that no such action has been necessary, but, from our standpoint, the agreement made by the members to abide by the fixed commission rule constitutes a violation of our antitrust laws.

The midwestern field has a larger premium income than any of the other regions, and the system devised for governing forms and rates used by member companies has become rather complex as the outgrowth of several years' experience.

The Western Underwriters Association is a successor to the old "Union" which was organized in 1879 and which created both rates and rules of practice. Throughout the years the Union and the Western Insurance Bureau agreed upon a central committee as a clearing house for all rates and rules. That committee is known as the Subscribers Actuarial Committee and is composed of seven members, one being chosen by the Western Insurance Bureau, and the remainder being selected by the members of the Western Underwriters Association at a meeting held immediately following the annual meeting of such organization. The manager of the Western Underwriters Association stated that the chairman of the Subscribers Actuarial Committee must be a member of the Western Underwriters Association, and he is also ex-officio a member of the governing committee of the Western Underwriters Association.

In Chicago the companies hold, through three trustees chosen by the Western Underwriters Association, the Dean Analytical System of fire-insurance rating, and a tremendous number of files on various problems of insurance held by the Western Actuarial Bureau. This Bureau was, for a number of years, managed by J. V. Parker, who held the property under a lease and copyrighted additions to the Analytical System in his own name. The manager of the Western Actuarial Bureau is the secretary of the Subscribers Actuarial Committee. With the death of J. V. Parker in 1936, a new lease was made with R. D. Hobbs, the present manager, by the trustees for the companies. Parker was, and Hobbs is, an expert in fire-insurance matters, and Hobbs is the secretary of the Subscribers Actuarial Committee in order that he may present technical advice, if required, on any change which the Subscribers Actuarial Committee may desire to make in any rate or form.

The manager of the Western Actuarial Bureau is the contact man for the various rating organizations set up in the respective States for the purpose of maintaining the rating records of the companies where required by law. There are 14 such organizations in the Middle West territory comprising 18 States. The Western Actuarial Bureau is maintained by assessments made on the various State rating bureaus which are in turn supported by direct assessments on the companies.

Changes in rates may arise either through request of one or more companies or at the suggestion of some member of the Subscribers Actuarial Committee. If it is determined by the committee that a change in rate is necessary, or that some particular class of risk should be put within another classification, or within the term rule permitting the writing of insurance for long terms at short multiples of the usual annual rate, this recommendation is conveyed to the governing committee of the Western Underwriters Association on the letterhead of the Subscribers Actuarial Committee, signed by Hobbs as secretary. A duplicate letter is addressed to the executive committee of the Western Insurance Bureau. If either of these organizations does not concur in such recommendation, the reasons for such disagreement are sent to the Subscribers Actuarial Committee, which may either accept or reject any proposed amendment. Where there is a

disagreement as to a rate matter, the opinion of the Subscribers Actuarial Committee appears to be final.

In the event the Subscribers Actuarial Committee decides that a change in some form is necessary, or that a new form should be added, their suggestions are conveyed to a committee known as the uniform forms committee, which is composed of six members of the Western Underwriters Association and four members of the Western Insurance Bureau. This committee prepares the forms in accordance with the suggestions received and transmits such forms to the Subscribers Actuarial Committee. The form then takes the route followed by any proposed change in rate.

Until approximately 6 months ago the two associations owned the Uniform Printing & Supply Co., which printed all uniform forms. Although the forms bear a label designating them as trade-marked, we are advised that no such trade-mark has been registered. In order that some mutual companies operating on the stock plan could obtain the uniform forms, such mutuals were given a few shares of stock ($1\frac{1}{2}$ shares) in the Uniform Printing & Supply Co., and Hobbs, who is secretary of the uniform forms committee, was supposed to have represented such companies on the uniform forms committee.

Under a transaction recently completed the Western Underwriters Association sold the Uniform Printing & Supply Co. to a private concern, retaining title to the name "Uniform Form" and being empowered to resume the printing of such forms at any time. When any form is approved for use, a copy of same is sent to the local State rating bureaus where it is proposed that such form be used. Subsequently the forms are sent directly to each agent by the Uniform Printing & Supply Co.

The cost of the operation of the Western Underwriters Association is approximately \$225,000 annually, and of this amount approximately \$100,000 has heretofore been used for the upkeep of the Uniform Printing & Supply Co.

In 1930 it was decided by the Western Underwriters Association that an organization known as the Interstate Underwriters Board be set up and a substantial part of the money collected by the Western Underwriters Association, either from assessments or fines, go to the support of that organization. Its general purpose is to audit risks written under one policy which lie in several States, such as chain-store policies. All of the organizations previously named are associated more or less closely with the National Board of Fire Underwriters. This board was originally created in 1877, and for a period of 2 years fixed all the rates and forms which were used by all member companies throughout the United States. Two years later some dissension arose, at which time the Union was formed, as above set out. The functions of the National Board have become in some respects more limited in the last few years. It has a standing committee on laws to which resort must be had before any matter of common interest may be determined by the companies through court action. For instance, the record reveals that the Ohio anticompany law, commonly known as the Valentine law, was a thorn in the side of the Western Underwriters Association. It was agreed by that association that an action would be brought to have such law declared unconstitutional. However, it was first necessary to submit the matter to the committee on laws of the National Board, which would not permit the bringing of such suit. The National Board also bulletins member companies and organizations concerning any proposed or enacted legislation which affects the insurance business, and maintains a lobbying organization, the most prominent members of which are located in Chicago. The National Board also engages in much advertising on behalf of stock fire-insurance companies and maintains a force of engineers throughout the country whose duty it is to reduce fire hazards where possible, and thereby increase the net income of the companies.

The Underwriters Laboratories appears to have originated under the supervision of the National Board, and, although it undoubtedly does serve useful purposes, serves to assist in the creation of monopolies by the restriction of its approval of fire-protection equipment to certain manufacturers. Its powers are maintained because the local rating bureaus will not grant lowered rates where nonapproved fire-protection equipment is found.

When new forms or rates have been agreed upon by the companies in the manner above outlined, this is sent to the local inspection bureau which in nearly all cases adopts the recommendation and makes the proper filing with the State authorities where necessary. If because of some local condition it has previously been agreed between the bureau manager and Hobbs that such filing be not made, no action is taken. For example, the companies agreed that in Missouri, pending

the extensive fire-insurance litigation there since 1922, no new filings were to be made which contemplated any broader coverage of form or any reduction in rate.

C. R. Street, one time chairman of the Subscribers Actuarial Committee, addressed a letter to the Kansas City Chamber of Commerce in 1935 in which he stated that Illinois, which was the pet State of the companies because no attempt had been made in that State to regulate the fire-insurance business, had received many benefits at the hands of the companies which were withheld from Missouri because of the litigation.

The record has developed that there are in Missouri 54 schedules from which all classes of property are rated, and that all of these schedules, with the exception of that on lead and zinc mines, were originated by the Subscribers Actuarial Committee and Hobbs, while that on lead and zinc mines, which is confined to Kansas, Oklahoma, and Missouri was originated at a meeting of the bureau managers of such States together with a representative of the Western Actuarial Bureau, the schedule being then approved by the Western Actuarial Bureau. The innumerable letters from respective managers of the rating bureaus to the Western Actuarial Bureau force the conclusion that no important step is taken by any bureau except with the consent or at the direction of the Western Actuarial Bureau in advising of such consent. The letters from Hobbs' office frequently state that action was taken on the question "by a committee of interested subscribers." Minutes of the meetings of the Subscribers Actuarial Committee, which we obtained after some difficulty, reflect that all important questions were submitted to the Subscribers Actuarial Committee and that the secretary thereof was directed to convey the desires of the committee to interested local bureaus.

In an early Missouri case in which several companies were fined for violating the Missouri antitrust laws the decision discloses that the trust was maintained through a local secretary of an agents' organization to whom all daily reports were submitted. If any company reduced the agreed rate or gave coverage other than that agreed on, the matter was brought to the attention of the association forming the trust at its next meeting. This plan, which was undoubtedly in general use, obviously gave rise to the local audit bureaus or, as they are designated by those in the business, "stamping offices."

In 1928 the Western Underwriters Association designated a committee of its members, of which C. R. Street was chairman, to create a list of all possible departures from the agreed rates or forms to be used by the Western Underwriters Association. These were placed in four classes. It was agreed that deviations from the usual practice which came within certain of these classes were to be sent to the Subscribers Actuarial Committee in Chicago, and that correction must be made or the company penalized. Other deviations of less important nature were to be called to the companies' attention by means of the hand stamp to be applied to the face of the daily report, thereby calling the attention of the offending company to the same. The practice is for criticisms which must be corrected to be submitted first to the Subscribers Actuarial Committee or to Hobbs, and they are then transmitted either to the governing committee of the Western Underwriters Association or to the executive committee of the Western Insurance Bureau, according to the membership of the particular company. If the deviation is of importance, the matter is then taken up with the offending company by either of those organizations and correction is made.

The managers of the respective audit and inspection bureaus are selected and their salaries fixed by the Subscribers Actuarial Committee. The assessments upon the companies for the support of the audit and inspection bureaus are also fixed by that committee. In addition to the organization for the ordinary class of insurance, there are several specialized pools. If any large oil refinery or oil risk is insured by any company, the daily report is submitted to the Oil Insurance Association, with headquarters in Chicago, of which several of the larger companies are members. The amount of participation is determined by the number of shares of the oil association which each owns, and the premium received and participations in the risk are divided accordingly. This organization is usually termed the "oil pool" by those in the business.

The Underwriters Grain Association is a similar organization and insures substantially all of the large grain elevators in the country.

In the earlier days of the business a number of factory mutuals adopted a policy of giving lower rates to large risks, such as factories and department stores, where sprinkler systems had been installed or where watchmen were continuously employed. To meet this competition, the two associations created their own organizations. That created by the Western Insurance Bureau is known as the Western Sprinklered Association, while that created by the Western Underwriters Association is known as the Western Factory Association. All members of the

Western Underwriters Association, with a sufficient amount of capital, may write insurance through the Western Factory Association, while participation in the Western Sprinklered Association is limited to 100 shares. Daily reports to either of these associations do not pass through the audit bureau but go directly to the Western Actuarial Bureau in Chicago where they are audited by someone in Hobbs' office. From the correspondence available it is apparent that rates on these risks are sometimes changed to meet the situation at hand and competition of the mutuals. In one letter written by an officer of the company it is stated that the stock fire-insurance company rates were reduced to meet mutual competition and that the mutual then lowered its rate and received the risk.

In the course of our investigation we find an enormous number of letters from officers of the various companies requesting that the Subscribers Actuarial Committee make some change in rate or form and which are convincing that all companies have the understanding that rates and forms are to be changed by the Subscribers Committee in the manner outlined above. In the minutes of the Western Insurance Bureau now in evidence we find the statement that there is an implied understanding between the Subscribers Committee and the Western Insurance Bureau that no change of form, rate, or rule will be made without first consulting the Western Insurance Bureau. We have more recently found numerous letters from the manager of the Western Underwriters Association which state unequivocally that the Subscribers Actuarial Committee has jurisdiction over rates and that the Western Actuarial Bureau has direct jurisdiction over the rating bureaus in the respective States. We are in possession of a letter from the present chairman of the Subscribers Actuarial Committee in which he states that such organization is committed to the use of a certain form of extended coverage endorsement as part of a Nation-wide plan, and that no change will be made in such form without consulting each jurisdiction.

In Missouri the agents writing business in the city of St. Louis are permitted a much larger commission on all business written than that permitted in the other parts of the State. It can readily be seen that this tends to increase the premiums which the inhabitants of other parts of the State must pay for insurance because the lower expense in St. Louis is chargeable to the State as a whole. Furthermore, as pointed out by Congressman Ploeser, any given company may have only three agents of a certain class in the city of St. Louis because of a rule adopted by the Western Underwriters Association with its headquarters in Illinois, and the organization itself is not directly subject to supervision by the State of Missouri.

RECOMMENDATION SUBMITTED BY ATTORNEY GENERAL M'KITTRICK

In view of the fact that the Department of Justice is the only Federal agency in existence which has any authority to attack the combination of the stock fire-insurance companies, we respectfully recommend that this committee urge that Department to institute suits against those stock fire-insurance companies which have agreed (1) to fix and maintain rates for insuring property against natural and other hazards, (2) to limit the forms which may be employed in insuring such property, and (3) to limit commissions which may be paid to their agents for the writing of policies. We believe this action should be taken immediately pending the enactment of Federal regulation.

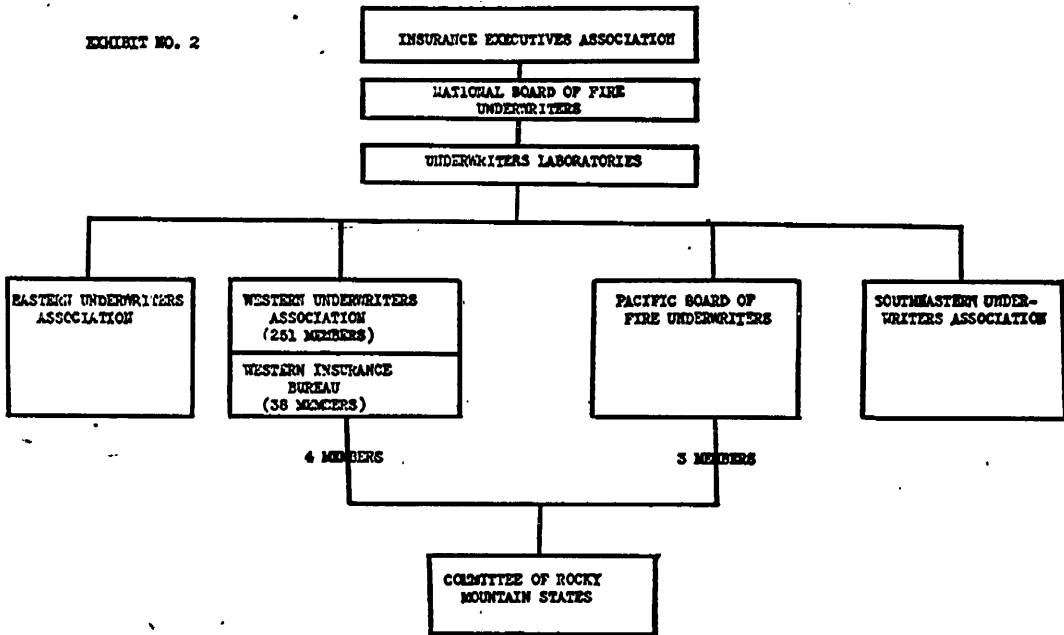
We believe the Federal Government is in a better position to control the insurance problem than the various State governments, the situation being highly comparable to that involving common carriers. We, therefore, recommend to this committee the establishment of Federal regulation of rates and forms of contract employed in writing fire-insurance policies and complete supervision of agency contracts.

We further believe the character of the insured should be taken into consideration in writing insurance, a factor which has been wholly disregarded in the fire-insurance business in the past. A Federal authority would be more competent to determine proper rates than companies which have arbitrary control of expenses other than losses and may, therefore, produce a bad experience record. Furthermore, the companies have added to their expenditures enormous sums in combating attempted State regulation.

We believe the problem requires prompt action in view of the fact that the cost of insurance on defense plants and materials is an important factor in the cost of same.

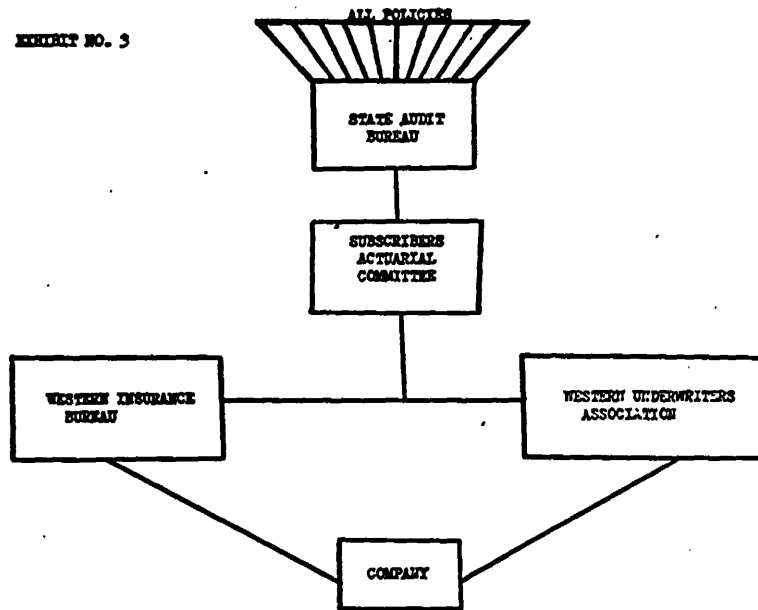
ROY MCKITTRICK,
Attorney General.
ROBERT L. HYDER,
Assistant Attorney General.

EXHIBIT NO. 2

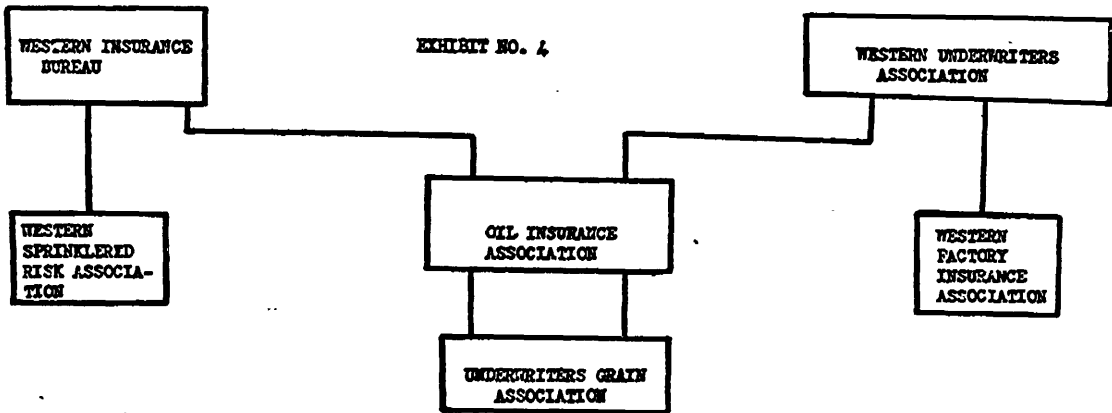


NATIONAL ORGANIZATIONAL CHART OF FIRE INSURANCE UNDERWRITERS

EXHIBIT NO. 3



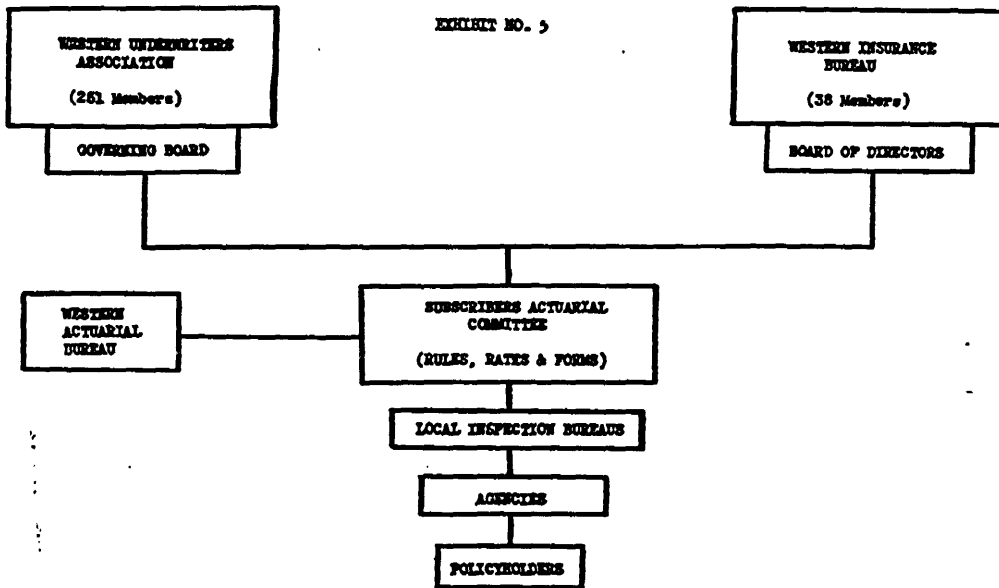
RATE MAINTENANCE AND ENFORCEMENT PROCEDURE



WESTERN AREA

SUPPLEMENTAL ORGANIZATIONS FOR PARTICULAR TYPES OF RISKS

EXHIBIT NO. 5



ORGANIZATIONAL CHART OF RULE MAKING PROCEDURE IN WESTERN AREA

Fire experience figures

[5 years, 1933-37, inclusive]

	Net risks written	Net premiums received	Net losses paid	Loss ratio
				<i>Percent</i>
Colorado.....	\$1,961,946,565	\$16,616,849	\$5,250,825	31.6
Illinois.....	23,971,566,936	154,307,371	66,422,755	43.0
Indiana.....	7,794,607,682	147,696,842	62,563,148	42.4
Iowa.....	4,477,755,469	52,148,616	20,410,963	39.1
Kansas.....	3,313,577,445	137,268,273	17,674,029	37.4
Kentucky.....	4,767,068,728	29,339,634	13,825,316	47.1
Michigan.....	12,347,747,432	125,536,850	53,853,482	44.5
Minnesota.....	6,554,913,977	24,906,022	11,495,966	48.1
Missouri.....	7,417,728,127	21,356,519	10,345,551	48.4+
Nebraska.....	2,565,410,161	37,373,869	16,799,681	45.0
New Mexico.....	530,262,630	33,028,822	14,548,239	44.1
North Dakota.....	855,939,044	12,419,050	55,891,222	48.9
Ohio.....	18,431,654,316	71,551,728	34,897,255	48.8
Oklahoma.....	3,458,354,322	39,967,357	18,441,481	46.1
South Dakota.....	938,092,065	18,732,901	17,845,674	46.2
Tennessee.....	3,928,653,688	59,154,205	27,372,155	46.2
Wisconsin.....	7,220,418,250	54,927,871	24,785,795	45.1
Wyoming.....	427,707,608	16,352,357	7,383,240	45.2
Total for territory.....	100,023,324,496	14,773,237	6,412,953	43.6
		5,730,472	1,968,037	34.3
		9,626,317	3,404,811	35.7
		18,206,805	2,782,841	33.9
		97,800,196	40,430,718	41.3
		165,796,467	29,048,269	40.8
		27,658,897	10,033,958	36.3
		125,591,535	9,118,512	33.6
		8,720,063	3,045,022	34.9
		17,456,019	2,412,867	32.8
		36,878,974	16,065,062	43.6
		132,679,207	14,057,764	43.0
		44,470,794	18,520,599	41.6
		141,984,139	16,901,262	40.3
		4,336,810	1,349,703	31.1
		736,761,882	317,648,333	43.1
		1,693,215,356	293,407,105	42.4

† Exclusive of farm property fire-experience figures.

Windstorm experience figures

[5 years, 1933-37, inclusive]

	Net premiums received	Net losses paid	Loss ratio
			<i>Percent</i>
Colorado.....	\$328,257	\$195,241	59.5
Illinois.....	23,354,381	8,980,661	38.5
Indiana.....	19,368,880	4,478,445	23.1
Iowa.....	12,425,433	3,723,134	30.0
Kansas.....	9,878,913	2,716,722	27.5
Kentucky.....	3,165,649	2,514,008	79.5
Michigan.....	5,877,792	1,877,186	31.9
Minnesota.....	6,648,194	1,991,762	30.0
Missouri.....	8,817,396	1,641,426	17.9
Nebraska.....	6,626,865	2,316,773	34.9
New Mexico.....	4,067,969	1,466,181	36.1
Ohio.....	4,144,668	1,203,982	29.0
Oklahoma.....	2,863,053	1,073,976	37.5
South Dakota.....	6,687,216	2,585,326	38.7
Tennessee.....	8,878,824	1,775,905	19.9
Wisconsin.....	12,107,784	3,940,950	32.5
Wyoming.....	10,827,011	2,426,352	22.4
Total for territory.....	8,266,832	3,088,064	37.3
	4,235,618	2,469,941	58.3
	161,933	130,722	80.7

† States east of the river. Perhaps this is a logical separation.

† Exclusion of farm property windstorm experience figures.

Windstorm experience figures—Continued

[5 years, 1933-37, inclusive]

	Net premi- ums received	Net losses paid	Loss ratio
			<i>Percent</i>
North Dakota.....	\$2,119,004	\$1,045,100	49.3
Ohio ¹	1,105,284	402,817	36.4
Ohio ²	16,221,712	4,041,129	24.9
Oklahoma.....	18,108,816	3,557,415	23.6
Oklahoma.....	6,981,431	4,814,440	64.8
Oklahoma.....	6,061,795	3,946,294	65.1+
South Dakota.....	2,778,311	2,145,555	77.3
South Dakota.....	1,392,004	949,663	68.1
Tennessee.....	2,871,471	2,070,321	53.6
Tennessee.....	2,768,308	1,642,980	59.4+
Wisconsin ¹	8,178,773	3,348,475	41.0
Wisconsin ²	6,404,495	2,030,606	31.7
Wyoming.....	49,922	16,445	32.9
Total for territory.....	125,796,548	43,957,612	34.9
	103,191,321	32,642,016	31.6

¹ States east of the river. Perhaps this is a logical separation.² Exclusion of farm property windstorm experience figures.

Windstorm experience figures, 1937

	Net premi- ums received	Net losses paid	Loss ratio
			<i>Percent</i>
Colorado.....	\$78,848	\$42,265	53.6
Illinois.....	4,903,963	849,973	17.1
Illinois.....	4,137,314	633,393	15.3
Indiana.....	2,563,527	996,643	37.8
Indiana.....	2,008,404	732,864	36.4
Iowa.....	1,612,337	544,792	33.8
Iowa.....	1,187,676	305,724	26.4
Kansas.....	1,394,047	326,685	25.3
Kansas.....	1,612,203	244,513	24.1
Kentucky.....	1,345,893	483,897	36.0
Kentucky.....	933,470	311,682	33.4
Michigan.....	1,059,956	235,189	22.5
Michigan.....	1,003,047	226,068	22.6+
Minnesota.....	1,802,819	351,788	27.0
Minnesota.....	1,131,085	224,216	19.8
Missouri.....	2,084,389	662,941	31.8
Missouri.....	1,808,931	512,682	28.4
Nebraska.....	914,075	456,317	49.9
Nebraska.....	782,689	332,638	43.5
New Mexico.....	44,109	98,501	223.3
North Dakota.....	394,880	146,561	37.1
North Dakota.....	216,074	50,778	23.5
Ohio.....	3,329,436	1,025,201	30.8
Ohio.....	3,555,124	881,474	24.8
Oklahoma.....	1,354,214	580,278	42.8
Oklahoma.....	1,154,244	480,339	41.6
South Dakota.....	435,273	436,014	93.6
South Dakota.....	254,554	246,478	96.9+
Tennessee.....	851,506	307,388	36.1
Tennessee.....	686,556	334,919	40.0+
Wisconsin.....	1,612,896	274,970	17.0
Wisconsin.....	1,261,656	304,118	15.8
Wyoming.....	11,312	1,412	12.5
Total for territory.....	26,783,661	7,799,815	30.3
	21,118,666	4,764,810	27.3

¹ Exclusion of farm property windstorm experience figures.

Windstorm experience figures

[14 years, 1924-37, inclusive]

	Net premiums received	Net losses paid	Loss ratio
			<i>Percent</i>
Colorado.....	\$950,941	\$338,410	35.6
Illinois.....	68,892,064	20,939,615	30.4
Indiana.....	154,435,510	14,524,362	26.7
Iowa.....	36,920,949	11,429,207	31.0
Kansas.....	28,982,752	7,983,237	27.5
Kentucky.....	25,649,593	7,213,939	28.1
Michigan.....	18,074,305	4,182,943	23.1
Minnesota.....	21,210,061	6,878,883	32.4
Missouri.....	17,094,095	4,821,137	28.2
Nebraska.....	17,975,729	6,562,417	36.5
New Mexico.....	12,798,290	3,900,423	30.4
North Dakota.....	11,802,881	2,507,670	21.2
Ohio.....	10,926,721	2,177,112	19.9
Oklahoma.....	20,565,533	7,904,413	38.5
South Dakota.....	16,722,893	5,479,110	32.7
Tennessee.....	36,671,861	21,490,665	58.6
Texas.....	132,621,502	19,553,264	14.7
Virginia.....	16,653,031	7,285,935	43.8
Washington.....	13,192,471	5,100,961	38.8
West Virginia.....	305,762	231,056	75.5
Wisconsin.....	8,352,426	3,219,456	38.7
Wyoming.....	1,810,748	1,255,906	69.4
Alabama.....	46,263,053	10,047,651	21.7
Arkansas.....	143,314,996	5,780,080	4.0
California.....	23,634,332	11,144,610	47.1
Florida.....	120,409,127	8,801,265	7.3
Georgia.....	10,875,631	7,775,622	71.5
Idaho.....	15,005,696	3,067,622	20.4
Montana.....	9,883,245	3,626,308	36.7
Nebraska.....	16,688,009	2,726,807	16.3
North Carolina.....	25,396,211	9,139,958	35.9
South Carolina.....	115,186,906	4,720,351	4.1
Tennessee.....	142,719	40,526	28.4
Total for Territory.....	\$382,227,234	138,166,903	36.2
	\$303,722,443	97,615,211	32.2

¹ Exclusion of farm property windstorm.

(Whereupon, at the hour of 11:40 a. m. the committee adjourned, subject to call.)

At the close of the hearing on March 10, the chairman suggested that General McKittrick might extend his remarks for the purposes of the record on any matters not covered at the hearing. There are set out below the following: (1) An excerpt from the minutes of the Western Underwriters Association, meeting of April 21-22, 1936, treating with the efforts to persuade members of the association to refrain from referring to agreements with respect to rules arrived at through trade association channels in connection with rates, commissions, representation of nonmember companies, separation, fines and penalties; (2) a letter on the same subject-matter from J. H. Doyle, attorney for the National Board of Fire Underwriters to B. M. Culver, president, Continental Insurance Co., of New York; and (3) a brief descriptive history of the Western Underwriters Association taken from the minutes of the semiannual meeting held at White Sulphur Springs, W. Va., on September 19-20, 1939.

(1) Excerpt from minutes of the Western Underwriters Association, pages 653-654.

Bulletins—Confidential communications.—There is no disposition on the part of your officers or the governing committee to seold—but the matter of members communicating to their field men or to agents the fact of bulletin information or bulletin request for information has been received by the members has become almost a practice.

It is not too much to say that the character of correspondence going from member company offices to the field is cause for serious concern. It is believed our executives and managers must be wholly unadvised as to what is really going on. We quote literal excerpts from carbon copies sent the governing committee office of letters addressed by members to agents and fieldmen.

One of our members recently instructed an agent as follows:

"Our attention has been called to the matter now by the office of the governing committee who advise us as follows: * * * It is very evident that the risk has been bulletined by someone * * *. Our action is taken only after being forced to do so and you can rest assured that whoever else is writing this business will have to follow the same procedure."

Another letter:

"This matter has been brought to our attention by the governing committee. In view of the fact that the matter has come to us in this form, it is now necessary that the policy be corrected or canceled."

A member addressed his agent in one of our Southern cities recently as follows: "Special communication has been received from the governing committee of the Western Underwriters Association requesting prompt adjustment of the Audit Bureau's outstanding notice."

An agent in Illinois received a letter from one of our member companies as follows:

"The governing committee of the Western Underwriters Association has just written us a letter asking us what action we are taking to secure correction. * * * As the Western Underwriters Association no doubt expect cancelation of the policy otherwise."

From a letter addressed to an agent in Oklahoma over the signature of one of our members we quote the following:

"You are no doubt aware we are bound by certain rules and cannot consistently deviate from said rules. * * * In order that we may safeguard our obligations with the conference * * *"

The same member addressed another agent as follows:

"In order that we may comply with our obligations to the conference committee it becomes necessary that we ask * * *. It is our desire of course to subscribe to this proposition but as stated above we are compelled to adhere to our agreements."

We take you now to Minnesota and quote from a very recent letter addressed to a local agent in that State:

"We have quite a file of correspondence accumulated since last October relative to the status of your company representation, and in the absence of advices of any change the Minnesota Underwriters Association under date of March 13 wrote our New York office requesting immediate action in this matter.

"This puts the heat on, and unless you have taken action suggested in my letter of January 29, we are obliged to limit your commissions * * * pending proper evidence of elimination from your agency of the objectionable nonaffiliated company."

From a letter addressed to an Indiana agent we quote the following:

"We regret very much that we must hereby give notice that it has been necessary to make a change in our commission arrangements with your office due to the representation of certain companies not affiliated with the Western Underwriters Association, of which we are a member company."

There are hundreds of letters of this type in scores of agencies throughout the States in our jurisdiction, and the wonder is that charges of conspiracy have not developed.

(2) *Letter from Doyle to Culver.*

November 9, 1932.

Mr. B. M. CULVER,
President Continental Insurance Co.,
80 Maiden Lane, New York City, N. Y.

DEAR MR. CULVER: My attention has been directed from time to time to unfortunate wording incorporated in communications sent into States which have anti-trust laws prohibiting agreements among insurance companies. So far as I know, all organizations of companies operating in States where agreements in respect of the conduct of the business are permissible have incorporated within them an exclusion clause which states in substance that the organization shall not assume or exercise jurisdiction relating to insurance or the manner of transacting business in any State wherein the exercise of such jurisdiction or control is or may hereafter be unlawful.

The antitrust laws of these States must be observed, but owing to the fact that mandatory rules and binding agreements are permissible in some States, there is some carelessness in correspondence passing into States where mandatory rules and binding agreements are prohibited.

This probably is not so prevalent respecting fire insurance as it is with collateral or side lines, and it would be well for companies to call attention to their various departments to the advisability of discontinuing such expressions in correspondence so far as possible, and to use great care that such expressions are not through inadvertence permitted in correspondence going into States having antitrust laws specifically including insurance.

The antitrust statute in the following States includes insurance by direct reference: Arizona, Arkansas, Georgia, Iowa, Kansas, Louisiana, Michigan, Mississippi, Missouri, Nebraska, New Hampshire, Ohio, Oregon, South Carolina, South Dakota, Texas, Washington, and Wisconsin.

In a number of the above States, statutes have been enacted legalizing rating bureaus and to the extent of the authority of such rating bureaus through legislation the antitrust provisions are ineffective.

To me it would seem unnecessary to make such reference in general correspondence in any jurisdiction and there is danger in its promiscuous use especially in the States above enumerated. It is proper to refer to the rules and regulations of legalized rating bureaus but the uncertainty of the scope of the antitrust laws and their possible construction is such that the indiscriminate use of any reference to rules and agreements seems hazardous.

Very truly yours,

J. H. DOYLE.

(3) *Excerpts from history of Western Underwriters Association, pages 1021-1022; 1023-1025*

At this, the sixtieth anniversary meeting of the Western Underwriters Association and its venerable predecessor, the Union, it is both interesting and appropriate to review some of the historical high spots in the progress and development of one of the oldest and most successful trade associations in American business history.

The historical course of the Union was launched at its first annual meeting, held at the Grand Pacific Hotel in Chicago on September 22, 1897, after preliminary meetings in Cincinnati and Chicago in May and June, respectively, of the same year.

The Union has the distinction of being the first successful effort at self-government in fire insurance on a sectional or regional basis. Its original field of operations (to quote from an early document) was "the heart of the Louisiana Purchase and the whole of the Northwest Territory, comprising 19 States and Territories from Ohio to the Rocky Mountains, and including Kentucky and Tennessee," except in the cities of Chicago, Cincinnati, Cleveland, Louisville, and St. Louis.

The Union was organized for the simple and declared purpose of "promoting reforms in underwriting." Membership then, as now, was personal, and the obligations of each member were based upon his personal honor, integrity, and good faith.

Previous efforts to create effective machinery for self-regulation in the West had been made at conventions of western fire insurance executives in Louisville in 1853, in Cincinnati in 1854, in Freeport in 1866, and in Detroit in 1872.

The quick success of the Union later encouraged the creation of similar regional organizations in other sections of the United States, such as the South East Tariff Association (now South Eastern Underwriters Association) in 1882, the New England Fires Insurance Exchange in 1883, the Underwriters Association of the Middle Department in 1883, the Underwriters Association of New York State in 1884, and the Underwriters Commission Association of the East in 1889 (changed to the Eastern Union in 1911 and to the Eastern Underwriters Association in 1926).

BACKGROUND

The National Board of Fire Underwriters, organized in 1866, had found it necessary to relinquish jurisdiction over rates and commissions in 1877, after 11 years of effort at self-regulation on a national scale, and fire insurance had been practically without regulation of any kind for more than 2 years when the Union came into being. Under these circumstances, it was but natural that the circular letter dated September 8, 1897, calling the first meeting of the Union, should contain such enthusiastic expressions as the following:

"The auspicious hour has come in which the underwriters of this country seem ready to unlearn the art of war, and seek in loyal, manful, and fraternal associations the ways of pleasantness and peace.

"The 'not yet' of yesterday brought disaster from every compass point. It arrayed the insurance interest against itself. It caused bankruptcies and retirements. It earned and secured public contempt and the passage of unjust and oppressive laws.

* * * * *

"Our compact has been ratified by 41 companies, representing 90 percent of the agency capital invested in the business, including those that heretofore have never been embraced in any similar agreement, and the whole being the most powerful and beneficent combination known in the annals of underwriting. Every company has confessed that associated effort is the only hope of reform. * * *

"The tone of the press indicates unmistakably that the public would approve our efforts to secure the practice of sound and healthy underwriting."

The 41 companies whose representatives signed the compact at a preliminary meeting in June were increased to 89 companies by the end of 1879, and the great organization which we now commemorate had started its useful career.

The 89 companies whose representatives constituted the original membership of the union possessed total assets of \$93,617,000, with annual premium income at the end of 1879 of \$28,249,000.

Our organization now embraces in its membership 251 companies, which at the end of 1938 has combined assets of \$1,787,620,000 and annual premiums amounting to \$575,300,000; thus, in 60 years the capital invested by companies affiliated with our association has increased 2,643 percent, while the total premium income of these companies has advanced 2,201 percent.

It is also of interest to observe that 31 companies have been continuously affiliated with our organization since its beginning in 1879. During these 60 years of uninterrupted affiliation, the assets of these 31 companies have advanced from \$67,623,000 as of December 31, 1879, to \$1,002,400,000 at the end of 1938, an increase of 1,482 percent. Annual premium income of these 31 companies during this period advanced from \$26,134,000 to \$315,225,000, an increase of 1,206 percent. Policyholders' surplus of this same group of companies increased from \$41,429,000 to \$607,959,000, an increase of 1,467 percent.

To state it another way, the premiums of these 31 companies in 1879 were only 8.29 percent of net premiums written in 1938. Policyholders' surplus was only 6.81 percent of the current aggregate figure, while assets of this group were only 6.74 percent of 1938.

Members may properly speculate as to whether they could have done better operating independently; nevertheless, the record made is an enviable one and bears abundant testimony in favor of adherence to sound practices as they have been determined in associated experiences and judgments through organization.

From the very beginning, the union assumed jurisdiction over rates and commissions. It continued as the sole organization of capital stock companies in the West until 1911, when several nonaffiliated companies formed the Western Insurance Bureau.

While there was conflict between the two organizations at first, the conference agreement, formed in 1912, permitted the two groups to work together constructively and in relative harmony until 1923, when the agreement was abrogated.

Disension between the two groups, largely over the question of commissions, was continuous until the end of 1929, when the name of the union was changed to Western Underwriters Association and 35 of the bureau companies were welcomed into our association and have remained with us continuously throughout the succeeding decade.

The complexities of our business have naturally increased with the commercial and industrial development of our country, and the problems of self-government, accordingly, have become more varied with each new decade.

The first concern of the Union was the regulation of rates and commissions, and the original machinery was relatively simple. In 1880 there were five standing committees: Arbitration, bulletin, tariff, agents, and forms of policy. The committee on taxation was provided in September 1881.

Thirty years later, at the end of 1909, there were 11 standing and special committees: Arbitration, bulletin, conference, fire protection engineering, governing, grievance, large cities, membership, patrol, publicity and education, and tornado.

Today our organization has 17 standing and special committees: Arbitration, arrangements, finance, fire protection engineering, general agency, governing, grievance, maps, membership, public relations, uniform forms, Chicago, loss adjustments—Cook County, cooperation in loss adjustment practices, inland marine, central traction and lighting, and uniform printing and supply company.

During the intervening years, there were standing committees on farm business, short rate tables, schedule rating, fire insurance patrols, engineering, fieldmen organizations, and legislation, which served their useful purpose but were discharged in the natural evolution of the work of our association.

EVOLUTION

Brief consideration of the background of some of our current standing committees not only provides some historical high spots of our great organization but affords a compendium of its accomplishments, as well as instances where objectives of members, for one reason or another, were not fully attained. It will also refresh your memories in some of the substantial and constructive contributions which our association has made to fire insurance in America.

GOVERNING COMMITTEE

The governing committee was created upon the recommendations of the Committee of Twenty whose report was submitted to the St. Louis meeting in 1899 to replace the four local board commissions and improved risks commission, which had had supervision over rates and commissions in their respective fields for about 15 years. The functions of the governing committee, which acts for members between annual and semiannual meetings of the association, are well known.

It is interesting to observe that the governing committee at one time had jurisdiction over rates and the power to grant relief rates to members in competition with nonaffiliated stock companies. It once held 48 meetings within a 6-month period, and on one occasion complained of the discourtesy of certain members. It is gratifying to observe that this committee is not only held in the highest esteem by all members but the affairs of the association were such as to require only 9 meetings of the committee within the past year.

SUBSCRIBERS' ACTUARIAL COMMITTEE

It was a long and rocky road, with many detours, that led from the Tariff Commission of 1850 to the subscribers' actuarial committee of today, but nearly every milestone of that road is a monument to an industry which, largely by trial and error, has sincerely and successfully endeavored to establish fair charges for its services.

The span of years is long from the time when rates were established by local boards of agents and State boards of fieldmen, determined by judgment, without experience and precedent; with the obstacle of public prejudice and the machinations of nonaffiliated stock companies to surmount, to the present-day estimates provided by the several State inspection bureaus, which are practically automatic because of the logical and scientific methods employed.

To the credit of our association, this has been accomplished by the development and application of the analytic system for the measurements of relative fire hazards, commonly called the Dean schedule, in honor of its originator, the late A. F. Dean, for many years a member of this organization. This method of determining fire hazards is now used exclusively in 22 States and its principles are followed in practically every State.

Besides aiding in the solution of one of the most difficult problems which brought this organization into existence, it has been of prime public interest and benefit, as evidenced by the fact that construction has been improved and fire hazards removed to such an extent that the average rate for \$100,000 of fire insurance in our territory has declined from 1.36 in 1896 to 0.64 in 1933, a decrease of 53 per cent.

The stamping office, now called audit bureau and generally used in all sections of the country, originated in this territory.

The existence of the splendid corps of inspection bureau managers in our States today does not indicate that there were not able and esteemed compact managers of an earlier day. Consider the statements of a member, who in praise of a compact manager in Michigan in 1885, among other things, said: "The June bug hath a godly wing; the lightning bug hath flame; the bedbug has no wings at all but he gets there all the same."

SMALL BUSINESS IN THE UNITED STATES

MONDAY, MARCH 16, 1942

SELECT COMMITTEE TO CONDUCT A STUDY AND
INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM
IN ITS RELATION TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.

The select committee met, pursuant to adjournment, at 10:30 a. m., in the Caucus Room, Old House of Representatives Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman (chairman); Halleck, Hall, Fitzgerald, Kelly, Bulwinkle, and Ploeser.

STATEMENT OF GUY HOLCOMB

Mr. HOLCOMB. My name is Guy Holcomb. I am head of the Small Business Section of the Antitrust Division of the Department of Justice.

I have a prepared statement which I will turn over to the clerk. I would like to read it to the committee, if I may.

The CHAIRMAN. All right.

Mr. HOLCOMB. Immediately after the issuance of the so-called sugar order of December 13, 1941, known as M-55, various representatives of small business firms and groups discussed with the small business section of the Antitrust Division the several inequities that have arisen from that order and its subsequent amendments.

Realizing that this committee's primary interest is that of studying the effect of the national defense program upon small business, I think it proper at the start to submit for the record figures obtained from the Bureau of Statistics of the Department of Commerce which indicate the large number and variety of small business establishments directly affected by the sugar order, also the number of employees dependent upon these smaller establishments for a livelihood. A casual perusal of this table will immediately convey the fact that there is not a city, town, or hamlet in the country whose economy is not affected by the sugar problem.

It might interest those of you now present to notice from this table that there are 18,000 bakeries in the country that are affected by this matter; 169,000 restaurant or food places; 82,000 drug stores; and so on, with fountains and food places, 560,000 retail food stores, of which about 350,000 are independent units. There are 39,000 general stores. In other words, the smaller firms affected by this sugar order were 960,000 of the total, employing 2,762,000 people.

This table makes no attempt to tabulate the effect on the consuming public. Of course, that term embraces our entire popula-

tion. I submit this table for the record, Mr. Chairman.

The CHAIRMAN. Yes, sir.

Without objection, it will be received.

Mr. BULWINKLE. Let's see it please.

Mr. HOLCOMB. Yes, sir [handing].

This table makes no mention of 10,000 farmers who are affected by this order, as I believe your committee will see as you get further into this sugar problem.

I am sure it is understood that it is not the prerogative of the Antitrust Division to attempt to mold or amend procedure on the part of the other divisions of the Government. We are strictly an enforcement agency. However, the small business section attempts to afford advocacy and forum as far as we may to the representatives of smaller enterprise who are unable to secure remedy or relief at the hands of proper governmental agencies.

In the instance of the sugar order, repeated efforts have been made by small businessmen to bring about a more workable and a more equitable administration of the sugar problem.

These efforts have been unavailing, by and large. We can afford them no remedy at law. Therefore, their complaints and petitions are brought before this committee, which has been properly delegated by the Congress to serve as a court of appeals, so to speak, for this large segment of American business.

Discussions and conferences with spokesmen for the various small business enterprises affected by this sugar order lead us to suggest that your inquiry be directed along specific channels.

It is probable that if thorough inquiry is made along these lines, your committee will unearth contributing, if not the fundamental, influences that have mitigated against a more equitable handling of the sugar problem.

The CHAIRMAN. I was hoping, Major, if we could let him finish the statement, then cross-examine him later.

Will that be satisfactory?

Mr. BULWINKLE. Well, I want to find out something.

The CHAIRMAN. Go ahead.

Mr. HOLCOMB (continuing). It is felt that such discoveries may immediately suggest proper remedies.

For instance, why was corn sugar not included—

Mr. BULWINKLE (interposing). There is something I want to say here.

Mr. HOLCOMB. Yes, Major.

Mr. BULWINKLE. Mr. Holcomb, under this proposition, you said, by inference, that there were undue influences used in the allocation of this sugar.

Mr. HOLCOMB. I would like to repeat the statement, Major.

Perhaps it is from this paragraph: Discussions and conferences with spokesmen for the various small business enterprises—

Mr. BULWINKLE. No. You said "your committee unearthed."

Mr. HOLCOMB. Oh, that is the following sentence. Is this the sentence: It is probable that if a thorough inquiry is made along these lines, your committee will unearth contributing, if not the fundamental, influences that have mitigated against a more equitable handling of the sugar problem.

Mr. BULWINKLE. What do you mean by that?

Mr. HOLCOMB. Major, I don't know how to make it any plainer.

Mr. BULWINKLE. Do you mean, on the one hand, to say that either in the Department of Agriculture or in the War Production Board there have been influences which have mitigated against the small man?

Mr. HOLCOMB. I believe that if a thorough inquiry is made—

Mr. BULWINKLE (interposing). Well, what evidence have you that there has been undue influence?

Mr. HOLCOMB. It is not the position of the Small Business Section or the Antitrust Division to explore or uncover this evidence.

Mr. BULWINKLE. I know.

Mr. HOLCOMB. That is your committee's function, I believe, sir.

Mr. BULWINKLE. But when a man makes an accusation, speaking for myself on this committee, I want some proof of it.

Mr. HOLCOMB. I think your committee will get proof. I am making no accusation.

Mr. BULWINKLE. Well, are you making an inference? In which department was it?

Mr. HOLCOMB. I make no inference. Inference can only be drawn.

Mr. BULWINKLE. How do you draw? What do you base your conclusion upon to draw this inference?

Mr. HOLCOMB. If you will allow me to complete my statement, I think perhaps you will find a basis for whatever inferences you gentlemen care to draw.

I make no accusation. I make no inferences; I don't engage in innuendo.

You people, I believe, are conscientiously anxious to uncover procedure, to reexamine administration and policy that may mitigate unfairly on small business people.

Mr. BULWINKLE. But has the Department of Justice any direct evidence that there has been undue influence in any of the Government agencies detrimental to the small business or detrimental to anybody?

Mr. HOLCOMB. The Antitrust Division has no authority to attempt to uncover such evidence. That is your authority. That is this committee's authority.

Mr. BULWINKLE. I know it is our authority, but you are making the statement.

Mr. HOLCOMB. Making what statement, Major?

Mr. BULWINKLE. You are making the statement, by inference, that if we proceed with this investigation, we will discover undue influences have been used.

Mr. HOLCOMB. This is my statement: It is probable—

The CHAIRMAN. Suppose we let him finish. As he said, if you will permit him to finish it, he believes it will clarify itself.

Mr. BULWINKLE. All right.

Mr. HOLCOMB (continuing). For instance: 1. Why was corn sugar not included in the original sugar order or any of its subsequent amendments? 2. Why is the M-55 sugar order, as amended, so drawn as to afford little restriction, if not virtual immunity, to certain dominant corporate chains?

Mr. BULWINKLE. Do you know whether or not that M-55 has been amended?

Mr. HOLCOMB. Oh, yes; that has been amended several times.

Mr. BULWINKLE. Within the last month?

Mr. HOLCOMB. I believe so, sir.

Mr. BULWINKLE. Well, how did that affect the small business then, since it has been amended?

Mr. HOLCOMB. It has failed to relieve certain small business organizations. They are here to testify, Major.

Mr. BULWINKLE. All right.

Mr. HOLCOMB. Why, in attempting to meet the wartime requirements for industrial alcohol is a scarce commodity being allocated instead of a surplus commodity for conversion? By a "scarce commodity" I mean sugar. By a "surplus commodity" I mean cereal grains.

As corollaries to the above three points, the answers to the following questions might be enlightening: What individuals dictated or directed the writing of the original sugar order and its subsequent amendments? What are or were the corporate affiliations and business antecedents of these individuals? Has the announced policy of Mr. Donald Nelson, in reference to placing those still in compensation from private firms in a position to favor directly or indirectly their own interest, been faithfully observed in all sections of the War Production Board having to do with handling sugar?

In the instance of the contract between the Cuban Government and the Defense Supplies Corporation, what individuals were responsible for the inclusion of the provision that one-third of the sugar crop was to be delivered in the form of invert molasses? What are the corporate alliances or interests of these individuals?

Are these interests present or represented in sections of the War Production Board which have jurisdiction or influence over—

Mr. BULWINKLE (interposing). May I interrupt just a minute? Have you an extra copy of that?

Mr. HOLCOMB. I don't have one with me.

The CHAIRMAN. I will see that one is mailed you, sir.

Mr. BULWINKLE. I think it would be a good idea, when anybody has a written statement before the committee, that copies be furnished the members of the committee.

The CHAIRMAN. I think that is a good idea.

Mr. HOLCOMB (continuing). Since it has been impossible to secure decisions or agreements to promulgate corrective measures in the sugar order, as amended, from the chief of the sugar section directly, through what channels do such recommendations have to pass for final approval?

Has it been as easy to secure Government loans for the erection of beet-sugar refineries as for the erection of cane-sugar refineries?

I should like the committee to understand that the above points should not in any manner be construed as veiled accusations by the small business section of the Antitrust Division. We have no authority or intention—

Mr. BULWINKLE (interposing). Just a minute, right there. You say you would like it not to be construed, but, yet your entire inference is that you want it construed that way.

Mr. HOLCOMB. Major, I will have to let the individual members of the committee draw their own inferences. All I can do is to make a statement. I repeat, I should like the committee to under-

stand that the above points should not in any manner be construed as veiled accusations by the small business section of the Antitrust Division. We have no authority or intention to review or criticize what has or has not been done in the handling of the sugar order.

We have received, however, hundreds of complaints from all classes of small business enterprises affected by this order, as well as the consuming public. The points of inquiry that I have outlined are the result of summarizing statements, accusations, allegations, and suspicions expressed in the complaints we have received.

Mr. PLOESER. Are we to take it that the reason you are here is because you feel that these complaints have some justice?

Mr. HOLCOMB. I wouldn't want to say that at all, Mr. Ploeser. Understand, we have literally between four and five hundred letters and visits and memorandums from individuals, groups of individuals, small business firms, and others who have written the sugar section, who have written the O. P. A. section and what not, outlining and explaining this inequality.

Many of them have been down to Washington, and they have visited these people.

A certain group of them—and I believe the gentleman is down here to testify when your committee is ready for him—went down to the Sugar Section of the War Production Board several weeks before the order was drawn up, and helped them in planning it, pointing out this, that, and the other thing, that if they would put this in or put that in, there would be less suffering, less inequality on the part of the independent wholesaler, the independent food dealer, the independent processors of sugar, such as your bottlers and your candy stores, and what not.

However, some very salient points which these representatives of small business enterprise emphasized and tried to get across were approved by the Sugar Board, I am told—that is, the Sugar Section—but it appears that the Sugar Section did not have the final word in writing the order. At least, those points were not included.

Mr. HALL. Your statement, I think, Mr. Holcomb, without regard to what you indicate as your desire that it not be construed as drawing some inferences, does draw some inferences, but are we to understand from what you are now saying that the suggestions that you have made, after all, are a summary of some of the complaints that have been made to your section?

Mr. HOLCOMB. That is all they are.

I have never visited the War Production Board Sugar Section. I have never talked about the thing directly. These people come by here and want to know who to see, and I tell them to see this man and the other man.

Mr. HALL. Your section of the Antitrust Division has to do with small business?

Mr. HOLCOMB. That is right.

Mr. HALL. But I take it your functions are wrapped up with the dominant functions of the Antitrust Division which is to prosecute for violations of the antitrust law?

Mr. HOLCOMB. That is true, but we have made no investigation along the line of whether or not the antitrust law has been violated in this instance. We are not interested in that.

Mr. HALL. That is what I was coming to; whether or not you have found anything that would justify prosecution.

Mr. HOLCOMB. We have not, and I am sure we have no intention of taking those steps unless some other agency of the Government—unless this committee of Congress, for instance—would ask that such action be taken.

The CHAIRMAN. Since Mr. Wickard is here, and you will be available later, will it be satisfactory to withhold cross-examination until we hear Mr. Wickard?

Mr. HALL. Yes; it would be all right.

Mr. HOLCOMB. I do plan to be out of town a few days. I will be available about Friday.

(Discussion off the record.)

(The following table was presented by Mr. Holcomb to be incorporated into the record:)

Consumption of sugar and number of establishments and employees of groups using or distributing sugar

Consumers and distributors of sugar	Sugar consumption in 1939 (thousand short tons)	Percent of total sugar consumed	Number of establishments in 1939 ¹	Number of employees in 1939 ¹ (average for the year)
Industrial consumers of sugar:				
Bread and bakery products.....	574	8.9	18,399	230,705
Confectionery and related products.....	511	8.4	1,315	58,531
Canning and preserving.....	300	4.7	2,725	118,843
Flavoring extracts and syrups, beverages:				
Nonalcoholic.....	234	3.7	4,504	21,265
Alcoholic.....	15	.2	1,051	40,082
Dairy products.....	182	2.8	9,535	50,756
Meat packing.....	26	.4	2,535	121,770
Grain-mill products.....	26	.4	3,674	48,339
Tobacco.....	21	.3	765	87,525
Foods, not elsewhere classified.....	123	1.9	5,412	36,104
Total for industrial users.....	2,272	35.3	60,478	826,687
Nonindustrial consumers of sugar:				
Restaurants and other eating places.....			198,792	591,643
Drinking places with meals.....			82,310	159,066
Drug stores with fountains.....			39,452	158,366
Distributors of sugar:				
Wholesale trade: ²				
Service and limited-function wholesalers:				
Groceries (general line).....			3,942	75,975
Groceries and foods (specialty lines).....			12,045	81,954
Agents and brokers: Groceries and foods (specialty lines).....			2,729	8,185
Retail trade: ³				
Food stores.....			580,549	798,482
General stores (with food).....			33,688	90,701
Total for household, restaurant, and other users.....	4,128	64.7		
Total sugar consumption.....	6,400	100.0		
Totals for users and distributors of sugar.....			900,965	2,762,944

¹ The number of establishments and employees represent the total number reported for each group; in the case of industrial users and distributors it is important to realize that not all of the establishments may use or distribute sugar.

² Data for industrial users represent the number of wage earners only.

³ Sugar sales represent from 5 to 12 percent of the total dollar sales of typical full-line grocery wholesalers, according to the Department of Commerce study, *Effective Grocery Wholesaling*.

⁴ Sugar sales represent 2 or 3 percent of the total dollar sales of independent service retail grocers.

(Witness excused.)

DEPARTMENT OF JUSTICE,
Washington, March 19, 1942.

HON. WRIGHT PATMAN,

Chairman of the Select Committee to Conduct a Study and Survey of the National Defense Program in its Relation to Small Businesses of the United States, Washington, D. C.

DEAR MR. PATMAN: I note that on March 16, Mr. Guy Holcomb, head of the Small Business Section of my Division, testified before your committee. His testimony consisted largely of conclusions which were not supported by any evidence. While he stated that "we have no authority or intention to review or criticize what has, or has not been done in the handling of the sugar order," nevertheless he made statements which by inferences could be construed as criticism.

Inasmuch as Mr. Holcomb was appearing ostensibly as the head of the Small Business Section of the Antitrust Division, I think I have the right to request that his testimony be stricken from the record in its entirety, since it is impossible to clearly differentiate portions in which critical inferences are made and the statements of fact.

The Small Business Section has been set up not to criticize other agencies of the Government, but to cooperate with them. It attempts to present to those agencies cases where small businessmen have been discriminated against so that those agencies themselves may exercise their judgment and apply their own policies after the facts have been investigated. It is an attempt to put the investigating facilities of the Antitrust Division at the service of other agencies of Government and, also, to provide small businessmen with an independent representative to aid them who can present cases which appear on their face to be meritorious.

Obviously if the Small Business Unit exercises its functions in such a way as to attempt to overrule or to criticize the decisions of other agencies its usefulness as a representative of small business would be at an end. Not only is it important that the Small Business Unit not criticize directly; it should not criticize by inference. Its position in presenting a case before a defense agency is similar to the position of an attorney before a court. Such an attorney is under obligation to present the facts fairly and clearly, but as an officer of the court he has no right to criticize its decision or its method of conducting its procedure.

Mr. Holcomb's testimony should be stricken not only because it was beyond the scope of his authority, but also for the reason that it consists in inferences without supporting evidence. It is the duty of the Antitrust Division never to permit any of its representatives to make inferences without supporting testimony, even if acting within their proper function.

Very truly yours,

THURMAN ARNOLD,
Assistant Attorney General.

STATEMENT OF HON. CLAUDE R. WICKARD, SECRETARY OF AGRICULTURE

The CHAIRMAN. Give your name and official position and address to the reporter, please.

Mr. WICKARD. Claude R. Wickard, Secretary of Agriculture, Washington, D. C.

The CHAIRMAN. Mr. Secretary, we have asked you here to enlighten us on the sugar question.

There have been many complaints on the floor of the House and through the public press about the sugar situation, many people claiming that there is no shortage at all, and others claiming that they are wasting sugar for purposes that we could use other products for, and there is such a difference of opinion among the people on it that the committee was asked to go into it, and anything you can tell us to enlighten us on the entire situation would be very much appreciated.

Mr. WICKARD. I think I could say that there is room for a difference of opinion concerning the amount of sugar to be available, and what might be done to alleviate any shortages.

There are so many factors that are unknown, no one can tell us today how much sugar we are going to get in from Hawaii, or even from Cuba, because there is a question of shipping, and I think that is something no one today can forecast.

Another factor now that we didn't see a few weeks ago is getting the tankers to bring molasses from Cuba to eastern ports for distillation into alcohol.

Another problem, of course, is how can we substitute grain alcohol for the alcohol made from molasses, and there are so many problems involved in that.

One problem, of course, is the converting of present distilling equipment so that it will make 190-proof alcohol, instead of the 140-proof alcohol which it now can make.

Another factor is the transportation—I am talking about railroad transportation. I don't know how many tank cars may be made available.

Now, the demand situation is another difficult problem; how much sugar we are going to send to Russia no one knows. That depends on how many ships will be available for taking sugar to Russia, and how much sugar they want. The same thing is more or less true of Great Britain.

So, I think that when anybody asks you for a definite statement and figure concerning the amount of sugar that will be available, and how nearly it meets the demand, he will just have to offer you something based upon estimates—estimates which include factors which cannot be foreseen for any length of time.

There is also one other thing I should mention, and that is the question of how much sugar our people would take if they were given all the sugar they wanted.

Now, last year our sugar consumption of this country—I should say, perhaps, disappearance in this country—was the greatest on record.

Mr. BULWINKLE. How many tons was it?

Mr. WICKARD. About 1,200,000 tons more than normal disappeared last year.

How much of that disappeared by stock piling or piling up reserves in industrial plants, and how much disappeared in consumers' own reserves, I don't know whether anybody can give you an estimate of that or not, but there was a large amount of piling up of sugar beyond the everyday needs.

The CHAIRMAN. Now, do you think there is any real hoarding going on, Mr. Secretary?

Mr. WICKARD. Well, I don't think there is too much hoarding going on now, because the sugar isn't available.

The CHAIRMAN. Well, what I mean is: Do you think they have hoarded sugar in the past and now have it on hand?

Mr. WICKARD. I think there is quite a little sugar that has been stored up ahead of immediate requirements.

May I make one other statement here and that is: We have a very large consumer buying power in this country which might go to

sugar—candy, cakes, ice creams, and things like that—in unprecedented amounts, so what our consumption in this country would be if there were no restrictions, I think would be another problem. So when anybody tries to make the statement that they know there are or are not going to be shortages, you have to ask a lot of questions, and then I think you can't make a definite statement.

The CHAIRMAN. Like the rubber situation, we didn't know that these islands were going to be taken so quickly, and many people thought we would have sufficient rubber.

Mr. WICKARD. No, sir; we didn't foresee that. A year ago I think we had an extra million tons of sugar in reserve.

Is that right, Mr. Bernhardt?

Mr. BERNHARDT. Yes, sir.

Mr. WICKARD. You can see how quickly that picture changed.

Mr. KELLY. What have we at the present time, Mr. Wickard?

Mr. WICKARD. Can you tell us how much sugar we have at the present time?

Mr. BERNHARDT. On hand at the present time?

Mr. WICKARD. Do you include the visibles as well as the

Mr. KELLY (interposing). Well, as far as can be calculated.

Mr. BERNHARDT. We will be glad to put in the record complete tabulation showing visibles and invisibles in all producing areas.

Mr. WICKARD. I think it would be better if we could make a study of that.

Mr. BERNHARDT. They are all matters of record.

Mr. KELLY. What percentage of production does beet sugar amount to yearly in this country?

Mr. WICKARD. What is it?

Mr. BERNHARDT. About a quarter.

Mr. WICKARD. About 25 percent of our total consumption?

Mr. BERNHARDT. Yes.

Mr. KELLY. Twenty-five percent, is it?

Mr. WICKARD. Yes, sir.

Mr. KELLY. Isn't there an effort being made to promote the growing of beet sugar in this country now, that started a year ago?

Mr. WICKARD. Yes, sir. We are encouraging the growing of beet sugar in this country so far as the capacity of the processors will permit.

Now, to say that we ought to increase greatly our production of beets in this country without taking into consideration how much capacity is available for processing of beets, of course, would be foolish, and there the problem, I think, is largely getting the steel and copper and other things that you have to have for additional sugar beet plants, but in the Department of Agriculture we are encouraging the growing of sugar beets all we can.

There is a problem the farmers have, and that is obtaining labor. There is a lot of labor involved in sugar beet production, as you know.

And, of course, there is one other thing that is involved; there are a number of other crops which are higher priced than usual, and he is faced with the question of which would be more profitable to him, but sugar prices and sugar terms to farmers, including the payments, are much more attractive than they were a year ago.

The CHAIRMAN. Are you through?

Mr. KELLY. Yes, sir.

The CHAIRMAN. For the record, Mr. Wickard, what was the production last year in the United States?

Mr. WICKARD. Can you give us that [addressing Mr. Bernhardt]?

We have a statement here which we submitted to the House Appropriations Subcommittee on Agriculture, and I think we have to refer to that statement.

I wouldn't want to make a statement in conflict with that, you see.

The CHAIRMAN. You know, there is some valuable information that goes in these committee hearings, but they are not widely available to the public.

There are only a very few copies made, and the distribution is very much limited, and it would be very helpful to bring out that information.

Mr. WICKARD. You are asking—

Mr. BULWINKLE (interposing). What was the production in the United States last year of cane sugar and of beet sugar?

Mr. WICKARD. Cane and beet?

Mr. BERNHARDT. The last beet crop was about 1,550,000 short tons raw value and the cane production was 450,000 tons.

Mr. BULWINKLE. How much was imported from the Philippines?

Mr. BERNHARDT. From the Philippines in the calendar year 1940, approximately 850,000 tons.

Mr. BULWINKLE. How much from Hawaii?

Mr. BERNHARDT. Hawaii, approximately 900,000 tons; Puerto Rico, 980,000 tons; Peru 150,000 tons, and other foreign countries—

Mr. BULWINKLE (interposing). How about Cuba?

Mr. BERNHARDT. Cuba, 2,700,000 tons. This is for the calendar year 1941—I said 1940. I believe; it should be 1941; last year.

Mr. PLOESER. Cuba was what?

Mr. BERNHARDT. 2,700,000 tons. May I submit a table for the record?

Mr. BULWINKLE. How much of this sugar remains in Cuba today that we have contracted for?

Mr. BERNHARDT. Practically the entire crop. The movement in the first few months has been rather light—about 280,000 tons, I think, came in prior to March 1, and very little has been shipped abroad, so that practically the entire crop—

Mr. BULWINKLE (interposing). Is awaiting shipment?

Mr. BERNHARDT (continuing). Is awaiting shipment. It is reaching the peak of production now.

Mr. BULWINKLE. That is, then, about 2,800,000 tons?

Mr. BERNHARDT. No, sir. The crop is estimated to total enough to make 4,200,000 tons of sugar—or molasses equivalent.

Mr. WICKARD. You see, quite a little of it goes to the United Kingdom directly, and to other nations in the south Central American countries.

Mr. BULWINKLE. What I want to get for the record: How much do we have in Cuba that is not available for shipment at the present time?

Mr. WICKARD. That is available for shipment?

Mr. BULWINKLE. That is there, but we can't get it at the present time in Cuba?

Mr. BERNHARDT. Well, this is a bad date to take, because it is the peak of the crop. In the next 2 months most of the crop will be made.

If you mean stocks at the present time, let us say a third of the crop has been made, of which probably 300,000 tons have been shipped, so you might say at the moment there are about 700,000 tons of sugar in Cuba, but there is going to be a couple million more made in the next 2 months.

Mr. BULWINKLE. I am not talking about the speculative—what is in the future—I am talking about what is there now.

Mr. WICKARD. Are you talking about what is awaiting shipment, assigned to somebody?

Mr. BULWINKLE. Yes.

Mr. WICKARD. We bought the entire Cuban crop. Part is allocated in Cuba for sale to some of the nearby areas.

Mr. BULWINKLE. How much of that Cuban sugar crop have you allocated to Great Britain?

Mr. BERNHARDT. I don't believe a definite allocation has been made. I believe that is still a pending matter, but it is commonly assumed that it will be about 500,000 tons for the United Kingdom and Canada.

In prior years the United Kingdom plus the rest of the world outside the United States had a quota, under the international sugar agreement, of a million tons. A million tons used to leave Cuba for other countries than the United States of which about half a million tons were for Great Britain.

Mr. BULWINKLE. And how much do you estimate the shortage of sugar is in the United States at the present time?

Mr. WICKARD. Well, as I said awhile ago, based upon consumption figures, and how much has to be set aside for various uses, it is awfully difficult to answer that.

Mr. BERNHARDT. I should put it this way, Mr. Secretary: If we had uncontrolled distribution of sugar, as we had last year, there is no limit to the possible shortage, because there is no limit, really, to the amount people will take in times like these, especially the manufacturers of articles that sell for a nickel and are fearful of the future, fearful they would not get sugar at the price that would enable them to sell their article at 5 cents.

Just last year there was a disappearance of 1,200,000 tons above normal. This year there might be a disappearance of 2,500,000 tons more than normal. But if you had a controlled distribution I think you could say, Mr. Chairman, that you would have enough sugar, with limitation on the industries, as we had in the last war, and some limitation on the sales to householders to meet fairly normal requirements, if marine shipping facilities and inland transportation facilities are available.

Mr. BULWINKLE. Well, what do you call a controlled distribution? What part? What do you mean by it?

Mr. BERNHARDT. Well, practically every other country in this war, so far as I know—whether it is a sugar-exporting country or a sugar-importing country—has rationing control of some kind.

Now, some of it takes the form of rationing actual householders, as in Great Britain, and Germany, or Italy. Sometimes it takes the

form of mere limitation of sales. In the last war we found it necessary to adopt a certificate plan under the Food Administration, under which less essential industries were cut in their usage a certain percentage, and the industries that were determined to be essential were not cut so much, and then the housewives' consumption was controlled through the retailers.

Mr. BULWINKLE. Well, how much have you controlled that distribution for this present war now?

Mr. BERNHARDT. Well, that is not under the jurisdiction of this department. That is under the War Production Board.

Mr. BULWINKLE. How much has it been controlled?

Mr. BERNHARDT. Under M-55 the general standard has been 80 percent of a past period. There has been a usage of 80 percent of the corresponding months of 1940 or '41, generally speaking. That is a 20-percent cut.

Mr. BULWINKLE. That is for the individual householder and for the industry?

Mr. BERNHARDT. That is industrial use. M-55 merely covered deliveries.

Now, the retailer simply distributed the stocks he had from time to time, and he also received, roughly, 80 percent of his past supply, except in some areas of the country where I believe the amount was considerably less, because the refineries didn't have enough for larger deliveries.

Mr. BULWINKLE. That was in the New England States, wasn't it?

Mr. BERNHARDT. Primarily northeast.

Mr. BULWINKLE. And that was due largely to the lack of shipments of sugar from Cuba to the port of Boston, wasn't it?

Mr. BERNHARDT. I don't think—

Mr. BULWINKLE (interposing). On account of the lack of shipping?

Mr. BERNHARDT. There has been a lack of shipping, but I am not certain it is any worse for Boston than for some other ports. The basic difficulty, I presume, may be said to have arisen from the very large and excessive distribution of last year, so that there wasn't enough stock in the intervening period between crops.

Mr. BULWINKLE. Does anyone in the Department of Agriculture, Mr. Wickard, sit with the War Production Board in the allocation?

Mr. WICKARD. No, sir; I don't think so. I am informed by Mr. Bernhardt that we have a man who sits with the W. P. B. Sugar Section in an advisory capacity.

Mr. BULWINKLE. Well, did the man who sits with them in an advisory capacity report back anything wrong with this allocation order under M-55?

Mr. WICKARD. That was not reported to me. I didn't hear about it.

Mr. BULWINKLE. Has he any connection at all with the sugar industry?

Mr. WICKARD. No, sir.

Mr. BULWINKLE. All right.

The CHAIRMAN. Had you finished your statement, Mr. Wickard?

Mr. WICKARD. Yes, sir.

The CHAIRMAN. Any questions, gentlemen of the committee?

Mr. KELLY. Mr. Chairman, I would like to ask Mr. Wickard a question.

The CHAIRMAN. Go right ahead.

Mr. KELLY. What percentage of this sugar is going into distilleries at the present time?

Mr. WICKARD. What percentage of the Cuban sugar?

Mr. KELLY. All sugar.

Mr. WICKARD. All sugar?

Mr. KELLY. Yes.

Mr. WICKARD. Well, I don't know. At present, I think—perhaps I could answer your question by saying: I believe there was about 1,000,000 tons of Cuban sugar—the equivalent of 1,000,000 tons of Cuban sugar—set aside for the production of industrial alcohol.

Mr. KELLY. I think it would be fine if this committee had some statistics in the record on all those users of sugar, along that line.

We might like to know just what portion is being utilized for that purpose.

Mr. WICKARD. I believe that the War Production Board people could give you more up-to-date and more accurate information on that than I.

Mr. KELLY. Many substitutes could be used for sugar for that purpose.

Mr. WICKARD. Then, again, there is a question of getting the equipment in these plants to use substitutes, such as grain.

There has been a large conversion of all the plants which can make 190-proof alcohol into the industrial alcohol for war and military purposes, but it takes quite a little equipment to change a plant over, which is not now equipped to make the 190-proof alcohol.

Mr. KELLY. And that comes solely under the supervision of the War Production Board?

Mr. WICKARD. Yes, sir.

Mr. KELLY. That is all.

The CHAIRMAN. Mr. Fitzgerald?

Mr. FITZGERALD. No questions.

The CHAIRMAN. Any further questions?

Mr. BULWINKLE. Just let me ask you one question: How much corn sugar is being made now?

Mr. WICKARD. How much corn sugar? Do you know how much corn sugar is being made [addressing Mr. Bernhardt]?

I can't answer you. Maybe we better get that for the record.

The greatest opportunity, of course, as I see it, is to use grain for making alcohol, rather than making corn sugar.

Mr. BULWINKLE. Yes, but I was wondering also, Mr. Secretary, if the corn sugar could not be used for the soft drinks.

Mr. WICKARD. Yes.

Mr. BULWINKLE. And various other things?

Mr. WICKARD. It can be used, but again there is a limit of capacity—not a limit on the amount of grain—that we have available for production of corn sugar.

I mean we have got much more than they will be able to process.

That is true, not only of corn, but of wheat. Wheat is an excellent grain for production of alcohol.

The CHAIRMAN. Any other questions, gentlemen?

Mr. PLOESER. I have a question.

The CHAIRMAN. Go ahead.

Mr. PLOESER. You gave us the 1941 figures for the crops of beet sugar and cane sugar in the United States. Have you the 1940 figures?

Mr. BERNHARDT. 1940?

Mr. PLOESER. Yes.

Mr. BERNHARDT. Yes. I can give you a cycle of years.

Mr. PLOESER. I would like to have 1940.

Mr. WICKARD. Cane and beet?

Mr. BERNHARDT. 1,850,000 tons for beet sugar and about 450,000 tons for cane.

Mr. PLOESER. In other words, cane remained at about a level?

Mr. BERNHARDT. Yes. We had 2 bad years.

Mr. PLOESER. Why was there a reduction in the beet sugar? There was about a 300,000-ton reduction in the year 1940.

Mr. BERNHARDT. Perhaps I had better give you the figures more accurately from the official reports: 1940 production of sugar, 336,000 tons.

Mr. PLOESER. Cane?

Mr. BERNHARDT. Cane.

Mr. PLOESER. Sugarcane in 1940?

Mr. BERNHARDT. Was 360,000 tons.

Mr. PLOESER. And in 1941 it was 450,000?

Mr. BERNHARDT. 450,000.

Mr. PLOESER. And beet?

Mr. BERNHARDT. Beet-sugar production in 1940, one million—that is approximately correct—one million—

Mr. WICKARD. One million what?

Mr. BERNHARDT. 1,850,000 tons.

Mr. PLOESER. I notice cane increased and beet decreased '40 to '41.

Mr. BERNHARDT. That is right.

Mr. PLOESER. What were the causes of that?

Mr. BERNHARDT. That was pursuant to the Sugar Act of 1937, under which the acreage with respect to which payments were made, was established at the amount required under the law, to meet the quota, plus normal carry-over.

Mr. PLOESER. We reduced the acreage on beet?

Mr. WICKARD. Yes, sir; in '41.

Mr. PLOESER. And increased it on cane?

Mr. WICKARD. The change was due to crop failures in 1940-41.

Mr. PLOESER. On cane?

Mr. WICKARD. On cane, yes.

Mr. BERNHARDT. The "proportionate share" acreage total in continental cane was not made in either year on account of the freeze.

Mr. PLOESER. Was there any attempt made in 1941 to increase our sugar production in the States?

Mr. BERNHARDT. As far as it could be, under the law.

Mr. PLOESER. Did your Department, at any time, make any attempt whatever to bring about the increase in sugar production during the year 1941?

Mr. BERNHARDT. Well, the sugar program itself exists for no other purpose primarily than to make possible the maintenance of domestic production.

In the case of sugar there is a protection in the act in the form of a tax-payment program.

Payments are made to producers to enable them to produce sugar beets or sugarcane, because, at the level of world price which prevails for sugar, and has prevailed during the last 8 years, it wouldn't be possible to produce sugar in the United States.

Mr. PLOESER. That is what I wanted to get correct.

Mr. BERNHARDT. These payments have been made to maintain production and to enable growers to meet certain conditions specified in the act.

One is that they pay certain wages to labor, (2) that they do not employ child labor, (3) that they fulfill certain conditions with respect to soil conservation practices—these conditions in the act—so that the whole program served to maintain and encourage the production of sugar beets, within the act's limitations.

Mr. WICKARD. And that program is in effect at the present time.

I think, if it were not for the program, I would say that our sugar production this year would decrease. That is the point—because of the competitive situation, that we could not, because of this program, compete with the lower price sugar which will be made available to us.

Mr. PLOESER. Another point I wanted to get at, Mr. Secretary, is this: That during the year 1941, when it was very plain to all of us that we would eventually get into this war, if not at one side then at the other, did we do anything in the Department of Agriculture to attempt to increase the production of sugar in the States, either beet or cane?

Mr. WICKARD. Except to carry on the program as authorized by law.

Mr. PLOESER. You made no attempt to recommend to the Congress that we increase the program?

Mr. WICKARD. No, sir. I don't think we made any recommendation to increase the program more than what the act provides—increase the production any more than what the act provides.

Mr. PLOESER. The reason I asked that was because there was one thing we could foresee; of all the maze of things that have happened that we could not foresee there was one thing we could: That when we did eventually get into war, that shipping would be greatly reduced, from the standpoint of imports, because we would naturally be using the greater part of available shipping to carry munitions, and that was bound to curtail such imports as sugar; that was inevitable.

Mr. WICKARD. I think that a year ago that question was being debated by a lot of people: Whether we were going to get into war or not.

I mean, it was impossible to foresee at that time what the situation was, especially as no one felt we would have any trouble in bringing in Cuban sugar.

The CHAIRMAN. Members of Congress could foresee the situation just as much as the Department of Agriculture.

Mr. PLOESER. Well, we are not denying that they didn't.

The CHAIRMAN. You say that equipment and machines represent the bottleneck between the corn and the industrial alcohol?

Mr. WICKARD. Yes, sir. I think that is true. However, at the present time there is one suggestion that has been studied, I understand, which will permit the taking of the alcohol from the low-proof distilling plants and sending it to be redistilled into the higher proof in the plants that are equipped to do that sort of thing.

Perhaps that might be one solution to getting a greater production of alcohol, high-test alcohol, from grains.

Now, there, I should say, of course, is a matter of reshipment and transportation, and all those things, but perhaps there may be some possibility there.

I am informed by Mr. Nelson that about all the equipment which can be used for making high-test alcohol is now being used, and it is a difficult problem of supplying the equipment which will be necessary to convert the low-test plants into high-test plants.

The CHAIRMAN. I wanted to ask you some questions about the amount of sugar that is being used for beverage purposes. However, we have Mr. Moffat here, of the War Production Board, and I imagine he would know more about that particular point, would he not, Mr. Wickard?

Mr. WICKARD. Yes, sir, I think so.

The CHAIRMAN. Any other questions, gentlemen?

(No response.)

Mr. WICKARD. Mr. Bernhardt would like to make one statement.

The CHAIRMAN. Go ahead.

Mr. BERNHARDT. One statement I would like to make: I believe the question was raised as to whether or not our contact officer on the War Production Board was connected with the industry.

I want to point out that, under the Sugar Act, no man can be employed in the Sugar Division who has such connection or has any ownership of securities—

Mr. BULWINKLE (interposing). I wanted to clear you of any inferences that might be passing around here.

Mr. WICKARD. Not only that, but those who have been in the Department can't confer with people in the Department for 2 years, if they are employed, after they leave the Department, by people interested in the sugar industry.

Mr. BERNHARDT. In order that the record may be complete: There is a statement which appears in the Department's record on the House agricultural appropriation bill, which I don't think I need repeat, in which I think the efforts of the administration, along the lines questions were raised, are set forth.

For example, at the beginning of last year, because of the overwhelming surplus of sugar in all the areas supplying the United States market last year, the Cuban producers had decided to produce about 2,000,000 tons of sugar.

The administration, particularly the R. F. C., took action so that under a loan arrangement an additional 400,000 tons of sugar was produced, which would otherwise not have been produced in Cuba, and that became available to us at the end of last year.

At the time of planting, the time of cultivating of all areas in production last year, every area except one area was so overburdened with stock that they were all reluctant to produce any more, but this measure was taken by the administration.

Mr. PLOESER. The reason I asked the question was that it was plain, in 1941, when so many members of the Cabinet were advocating going to war, that we would eventually get there, so we should have been planning ahead for shortages.

Mr. BULWINKIE. Just a minute here.

Mr. FITZGERALD. Maybe they were right in their judgment and other Members of Congress couldn't see it.

Mr. PLOESER. I wouldn't comment on whether they were right or wrong; I commented on their advocacy.

Mr. BULWINKIE. Mr. Chairman, I don't want to comment on the Members of Congress and how they voted in the past, but I can do it.

Mr. WICKARD. Thank you, sir.

The CHAIRMAN. Thank you.

(Witness excused.)

The CHAIRMAN. Mr. Moffat.

STATEMENT OF FRASER H. MOFFAT, CHIEF, ALCOHOL SECTION, WAR PRODUCTION BOARD

The CHAIRMAN. Give your name please, and position, and address, to the reporter.

Mr. MOFFAT. Fraser Moffat. I am Chief of the Industrial Alcohol Unit of the War Production Board, Chemicals Branch.

The CHAIRMAN. Mr. Moffat, do you have control over the sugar section of the War Production Board?

Mr. MOFFAT. No, sir. I have nothing to do with the sugar section.

The CHAIRMAN. Do you have anything to do with the industrial alcohol?

Mr. MOFFAT. Yes, sir.

The CHAIRMAN. Would you like to make a statement in advance of any questions the committee members may want to ask you?

Mr. MOFFAT. I would like to; yes, sir.

The CHAIRMAN. You may proceed.

Mr. MOFFAT. There has been a good deal of discussion about the industrial alcohol situation, and I think it would be well to point out exactly how much is needed and where it is coming from.

Our estimates of the amount of alcohol required for the year 1942 have been, all along, 275,000,000 gallons.

The CHAIRMAN. For what purposes will this industrial alcohol be used?

Mr. MOFFAT. The use of that amount of alcohol is divided as follows:

First, for consumption in smokeless powder plants, 35,000,000 gallons.

Other requirements, direct Army and Navy, of 15,000,000 gallons.

Requirements for lend-lease, 20,000,000 gallons.

Requirements for use as a raw material in essential chemical manufacture, 70,000,000 gallons.

We have set aside as necessary to take care of antifreeze requirements, assuming that other antifreeze ingredients will not be available, 60,000,000 gallons.

Other essential civilian uses, 75,000,000 gallons.

The CHAIRMAN. Would you break that down for us?

Mr. MOFFAT. I do not have it further broken down, but it goes into such things as making resins and plastics and thinners for shellac, paints, varnishes, all of which you can call semiessentials

That, in any event, is the balance of the demand which we have set up.

Now, in order to take care of that demand, ordinarily we get about 80 percent of our alcohol production from molasses, the balance of it comes from ethylene gas, which comes as a result of cracking operations in the manufacture of gasoline.

At the time when I started to work for the War Production Board, we expected to get about two hundred to two hundred twenty million gallons from synthetic sources. It soon became apparent that we were going to need to cut down on that molasses and get alcohol from other sources of supply.

Before the declaration of war, the balance was set up at roughly 175,000,000 gallons from molasses, 55,000,000 from synthetic sources, 45,000,000 from grain.

As soon as we entered the war, it became apparent that we would have to cut that alcohol from molasses still further:

First, on account of the sugar which it used up and second on account of the possible shortage of shipping to bring the molasses into the country.

Our present practice has now further reduced the alcohol from molasses to 150,000,000 gallons, the synthetic supply still remains at 55,000,000 gallons; and our grain program has reached 70,000,000 gallons.

We anticipate that by means of several ways which we have in mind that our eventual program will end up making a hundred million gallons of alcohol from black strap molasses, 90,000,000 gallons from so-called high wines which is low-proof alcohol produced in beverage distilleries, 65,000,000 from synthetic sources, and a hundred million gallons from high proof direct from grain. That gives us a total of 355,000,000 gallons of alcohol.

This program will need no new plants, but it does require legislation which is now before the Congress.

In explaining this eventual program, let me point out that this eventual hundred million gallons from black strap molasses comes from a source which does not affect the amount of sugar available for human consumption.

Blackstrap molasses is a byproduct from the manufacture of sugar. It comes from the Caribbean area; it also comes from Mexico; it comes from the United States and we anticipate that this eventual program of ours will require no sugar whatsoever to make alcohol.

Mr. PLOESER. How soon will you arrive at that point in the program?

Mr. MOFFAT. We are going at it just as fast as we can. It is now a matter of conservation—well, first, legislation; second, to equip and select these high wines plants—that is, whisky plants, if you will—

which are capable of making the highest proof, and the nearest to centers where we can redistill the alcohol to the strength at which it must be used.

Mr. PLOESER. Do you imagine you will arrive at that point within 6 months?

Mr. MOFFAT. I imagine we will arrive at that point by the end of the year. At least, we will get to that rate. But when you take the fact that the beverage industry is not equipped to make industrial alcohol; has never been equipped to do it; is not ready to ship in bulk; has no storage capacity at the producing plant, and you are putting them into a business that requires 200,000,000 gallons, roughly, shipments, annually, it is quite a problem and taking it away from other plants at the same time.

In other words, you are knocking them out of their regular business and putting them into another business.

The CHAIRMAN. How much sugar is being used now for beverage purposes, like Coca-Cola and Dr. Pepper?

Mr. MOFFAT. I don't know anything about that, sir.

The CHAIRMAN. Is sugar being used now to make alcohol for beverage purposes?

Mr. MOFFAT. There is some sugar now being used. At first contemplation, it appeared, as I spoke of this program way back in the middle of last year, it looked as though we would need a million two hundred thousand tons of sugar from Cuba in the form of invert molasses to meet our program. That was subsequently reduced to a million long tons.

The CHAIRMAN. How much of that was alcohol for consumption, beverage purposes?

Mr. MOFFAT. None for beverage.

The CHAIRMAN. None for beverage?

Mr. MOFFAT. No, sir. That million long tons has now been reduced—at least, the War Production Board has gone on record with the Defense Supplies Corporation to reduce the amount of sugar set aside in Cuba for a million long tons to 700,000 long tons, and further reduction will be made in that as fast as may be possible.

The CHAIRMAN. Do you know who earmarked one-third of the available supply, or about 1,300,000 tons, of Cuban sugar as essentially for conversion to industrial alcohol for war requirements?

Mr. MOFFAT. I had nothing to do with that, sir.

The CHAIRMAN. Did you have any dealings with the grain distilleries in regard to the offer of their plants for use in making alcohol from corn and grain?

Mr. MOFFAT. Yes, sir; I had to do with that at the time.

As explained, I have been working with them and converting their plants as rapidly as possible.

The CHAIRMAN. Was a loan asked for by the Gulf Distilling Co. of New Orleans?

Mr. MOFFAT. The Reconstruction Finance Corporation called me up and said that the Gulf Distilling Corporation had applied to them for a loan to cover grain handling equipment at their plant in New Orleans.

I said that we were not advocating any loans for adding grain handling equipment at the present time, because—

The CHAIRMAN (interposing). Have you—

Mr. MOFFAT. Could I finish this?

The CHAIRMAN. Yes, sir.

Mr. MOFFAT (continuing). Because if you allow a molasses plant to handle grain in one area, every other molasses plant will want to come in and have the same sort of equipment. That plant had been given a quota to use molasses.

All their allegations to me were that they were going to use molasses. In fact, we want them to use molasses, because if molasses comes in it will all come to New Orleans.

We don't anticipate that any will come north of Hatteras.

The CHAIRMAN. Did the California wineries offer to make 25,000,000 gallons a year under certain conditions?

Mr. MOFFAT. Not to me, sir.

The CHAIRMAN. You know nothing about that?

Mr. MOFFAT. I have heard of various offers from the California wineries, and we have plans with respect to their equipment; yes.

Let me point out at this point that wineries in California apparently have high-proof distillation equipment. They are, however, not strategically located to the points of heavy consumption of alcohol.

In other words, it would take three or four times as many tank cars to bring their output from California as it would if we had the distillation equipment located in the Middle West.

It may become necessary to ask them to lend or arrange for purchase of some of their high-proof distillation equipment and relocate it at some point in the Middle West where they can handle the output of high-wines plants.

The CHAIRMAN. How many of the sugar-alcohol companies are there in the United States?

Mr. MOFFAT. I believe there are seven.

The CHAIRMAN. Seven companies?

Mr. MOFFAT. I believe so; yes, sir.

The CHAIRMAN. What is your definition of the phrase "invert molasses"? How would you explain just what it is meant by invert molasses?

Mr. MOFFAT. Invert molasses is made by taking the whole juice of the sugarcane, concentrating it, and inverting the sugar so that it will not spoil in transit.

The CHAIRMAN. How much of the Cuban crop has been turned into invert molasses?

Mr. MOFFAT. I don't know how much to date, but, as I pointed out, we have recently requested the Defense Supply Corporation to arrange that not more than 700,000 tons be turned into invert molasses.

The CHAIRMAN. I asked you about the sugar-alcohol companies awhile ago, and you said seven. I believe you did say seven. Have they been using any sugar stock in the United States?

Mr. MOFFAT. For making alcohol?

The CHAIRMAN. Yes.

Mr. MOFFAT. No, sir.

The CHAIRMAN. What would be the approximate difference in cost between a gallon of 190-proof industrial alcohol made from sugar and one made from surplus corn and grain?

Mr. MOFFAT. Well, it depends on the price of the sugar and the price of the grain.

The CHAIRMAN. And the availability of the machines to do the job, too, I presume?

Mr. MOFFAT. That is true; yes. Roughly, I think, especially denatured alcohol, 2-B, used as a norm, with sugar about two fifty, the price of that alcohol would be 50 cents, and with grain at about 85 cents a bushel the same price of alcohol would entail.

The CHAIRMAN. In your dealing with these many companies that handle this essential material for civilian use as well as war use, do you see any holding back or hindrance of the war-effort program or any failure on the part of these companies or their officials to fully cooperate in trying to do what is best in our war effort?

Mr. MOFFAT. No, sir; none whatever.

The CHAIRMAN. Do you think they are all cooperating fully?

Mr. MOFFAT. As far as I can see.

The CHAIRMAN. And wholly and a hundred percent?

Mr. MOFFAT. Yes, sir.

The CHAIRMAN. No evidence at all of their holding back?

Mr. MOFFAT. No, sir.

The CHAIRMAN. Any other questions, gentlemen?

Mr. FITZGERALD. You said something about legislation that was needed. Will you explain?

Mr. MOFFAT. The legislation required is in order to allow the so-called high wines—that is, 120- to 140-proof alcohol whiskey—to be shipped from registered distilleries to industrial-alcohol plants for redistillation. That, up until now, is against the law. In other words, a beverage plant cannot ship its output to an industrial-alcohol plant for further handling or processing.

The current bill before the Congress—I think it was H. R. 6543—provides legalization of that procedure.

The CHAIRMAN. Have we passed that bill in the House?

Mr. MOFFAT. The House has passed it. I believe the Senate has reported it out. That was the Doughton bill, I think.

The CHAIRMAN. Yes.

Any other question, gentlemen?

Mr. BULWINKLE. Mr. Moffat, I was at the door when you first started. I wanted to ask you something.

Mr. MOFFAT. Yes, sir.

Mr. BULWINKLE. How much sugar do you estimate would be used—don't speak in gallons of molasses, but speak in tons—for alcohol this year?

Mr. MOFFAT. Tons of sugar?

Mr. BULWINKLE. Yes.

Mr. MOFFAT. Well, I don't know whether it will be possible further to reduce the 700,000 tons set aside in Cuba for that purpose.

Mr. BULWINKLE. But you estimate it would be at least that?

Mr. MOFFAT. It started off at 1,200,000, and we reduced it to 1,000,000, and we have now reduced it to 700,000. If we are able to reduce it any further, we will; but we cannot let go of that until we grab onto the other. That is the situation in a nutshell.

Let me say, also, that the amount of sugar going into alcohol is, as you may gather, about 10 percent of our total sugar consumption

and, furthermore, the amount that we propose to put into alcohol this year is only about half what was put into alcohol last year; and if we can reduce it any further, we will do so.

Mr. BULWINKLE. I notice in this statement that is here that it was only 2 percent of the 1939, of the amount of sugar consumed in the United States.

Mr. MOFFAT. In 1939, perhaps. In 1941 there was 1,240,000 long tons of sugar converted into invert molasses and used for alcohol manufacture.

Mr. BULWINKLE. That is all I care to ask you.

The CHAIRMAN. Any other questions, gentlemen?

(No response.)

The CHAIRMAN. Thank you very kindly, Mr. Moffat.

(Witness excused.)

The CHAIRMAN. Is Mr. Nemir here?

STATEMENT OF ALBERT S. NEMIR

The CHAIRMAN. All right, Mr. Nemir, if you will give your name and official position to the reporter, it will be appreciated.

Mr. NEMIR. Albert S. Nemir, Division of Statistics, War Production Board, also advisor to the Sugar Section, War Production Board.

The CHAIRMAN. Before questions are asked by the committee members, would you like to make a statement, Mr. Nemir?

Mr. NEMIR. I believe the general statements have been made, and I would prefer to defer to questions rather than making broad statements.

There is one thing apparent, and that is that the sugar situation changes very rapidly and it is extremely difficult for the public to keep up with it. They have to be sugar economists to see the changes as they occur so rapidly.

I don't believe I want to make a long statement.

Mr. BULWINKLE. Who comprises this board that you are advisor to?

Mr. NEMIR. Well, the Division of Statistics is a part of the War Production Board. Their general work is to provide—

Mr. BULWINKLE. I am talking about the sugar board. I don't care—

Mr. NEMIR. Who comprises the sugar board?

Mr. BULWINKLE. Yes.

Mr. NEMIR. Representatives of the Department of State, representatives of the War Production Board, Sugar Section.

Mr. BULWINKLE. Will you give the names? Could you give the names?

The CHAIRMAN. You would be satisfied with the agencies represented, would you not?

Mr. BULWINKLE. I think we also ought to have—

Mr. BOWMAN. I can give you the names. Defense Supplies, Mr. Sabin; Office of Price Administration, Mr. Westing; Agriculture, Dr. Bernhardt; State, Larry Dugan; Economic Warfare, Einar Jensen; Commerce, Fletcher Rawls; Department of Interior, Mr. Swope; and the War Production Board, Mr. Bowman and Mr. Townsend.

Mr. BULWINKLE. I think perhaps that, probably, as far as I am concerned, I would rather have him back here after I have heard the whole thing and might want to ask him some questions, but not right now.

Mr. NEMIR. I would prefer to be questioned rather than make a broad statement.

I didn't come prepared to make a statement.

The CHAIRMAN. Do you have any questions, Mr. Kelly?

Mr. KELLY. No, sir.

The CHAIRMAN. We have 2 more days of hearing. Would you be available, Mr. Nemir?

The CHAIRMAN. Tomorrow morning we have Mr. Fulton Lewis and Mr. McNamara and two other witnesses whose names we are not ready to give yet.

Mr. PLOESER. No more witnesses today?

The CHAIRMAN. No more witnesses today.

That will be all of the sugar hearing today.

Mr. PLOESER. I just wanted to call the committee's attention again to the hearing that was held in Detroit, and very ably presided over by Mr. Kelly of the committee, on the subject of the troubles and distress that the printing industry of the United States are getting into and on the increasing competition coming out of the Government Printing Office.

It has come to my attention this week that the Government Printing Office had adopted the habit of letting printing contracts by advertising for maybe 8 or 10 bids in one advertisement. And then after the various bidders had bid on these items as individual contracts, the Printing Office would let them in the aggregate, with the result that by letting them in the aggregate, sometimes the highest bidders on many important items got the contract instead of the lower bidders.

It has been a very disturbing situation to the printers who have been bidding.

It has been called to my attention that frequently the method of letting it in the aggregate has cost the Government considerably more money because, had they let the bid on each individual item, as it was indicated in the bid announcements, they would have probably saved many thousands of dollars.

Printers have been in Washington complaining about this practice, and there is some indication that it is going to be discontinued.

Detroit alone isn't the only one affected. While Detroit industries have been injured to the extent of about 80 percent, I now get estimates from my own city of St. Louis where they have already suffered injury probably up to 30 percent of their bids while the Government Printing plant continues to expand and grow and various departments of the Government continue to buy new printing machinery and equipment to compete with private industry, and I think the committee has waited a long time since the hearing in Detroit to get into action, and I am hopeful that we will do something about the matter in the next few days.

The CHAIRMAN. I will state for the general information of all, that hearings on printing will be resumed Thursday, and Mr. Giegengack will be here as a witness.

Mr. PLOESER. I want to submit, Mr. Chairman, if I may, for the record, a statement from the people who are in the photocopy business in the offset types.

The CHAIRMAN. Without objection, it will be put in the record.

Without objection, we will stand in recess until 10:30 o'clock tomorrow morning.

(The statement presented by Mr. Ploeser for incorporation in the record is as follows:)

HON. WRIGHT PATMAN,

Chairman, Select Committee to Conduct a Study and Survey of the National Defense Program in Its Relation to Small Business of the United States.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE: Recently it has been brought to our attention the fine work yourself and your committee have been doing in relation to small business in the United States. We have thought it advisable to place before you and the members of this committee, some of the problems of the blueprint and photocopy industry, consisting of numerous small shops, which in the majority are privately owned and operated. These shops are of vital importance to the manufacturer, architects, designer, construction companies, and so forth.

At the present time we are not in a position to present facts from a national viewpoint, although we are making an effort to somewhat organize the individual blueprinter and photocopyist, and secure from them some data as to the units of equipment, available man-hours, their percentage of Government work, the additional capacity of their plants, and other information that would be vital to an investigation. We can give you a picture of the area in which we are located, which is more or less a cross-section of the industry as far as we have been able to determine to date.

In our local plants, at present, approximately 70 percent of our work is Government work, directly connected with war-production efforts. Our plants are not operating to their full capacity. Private work, industrial and architectural, have practically been eliminated because of the present situation. Consideration should be given to the small independent blueprinter and photocopyist who are confronted with the problem of the loss of business through continued installation of large and small equipments, such as blueprint machines and photostat machines in defense plants and Government offices in areas where there are adequate machines and sufficient help to render better service, and in most cases less costly than would be found in doing this same work by inexperienced and untrained workers in the Government office or project.

We are enclosing a photocopy of an article appearing in our Blue Printer magazine of a recent case in which the alertness of the War Production Board overruled the Army's plan to erect complete printing and bookbinding plants throughout the country to publish their books and pamphlets instead of contracting it to private industry. The independent blueprinter and photocopyist are laboring along and confronted with the same problems as the printers and offset industry. We too must continue to have blueprinting and photostat work from the Government offices and defense projects in order to keep from closing our doors. The above information explains what we have in mind.

Our plants cannot be utilized for the direct production of war materials of one kind or another. Our effort can only be concentrated on furnishing the blueprints and other reproduction work, which are vital to industry, ordnance offices, and so forth. We believe that Government blueprinting, photocopying, and all other reproduction services, can be produced more efficiently, economically, and faster in plants located in their immediate vicinity. It has been brought to our attention that the United States Engineer's Office in St. Louis has purchased equipment, even though they are located within a four-block radius of five plants, any one of which is capable of producing their work.

We wish we were in a position at the present time to give you more statistical information, but because of the urgency of the situation, we are trying to place before you immediately a problem which is without doubt essential to the future of the blueprint and photocopy industry. This war has brought about a ban on nondefense building. Advertising has dropped to practically nothing. Our normal peacetime business is gradually becoming less and less, and there is nothing left for the blueprinter and photocopyist except Government and defense orders. We want to do our part to help win this

war, we have the equipment, the experience, and can render the service, but each installation in a defense plant or Government office hurts the blue-printers and photocopyists in the locality where installations are made, in addition to using vital materials in the equipment that could be used in other war production.

Sincerely yours,

Commercial Blue Print and Photocopy Co., 1123½ Locust Street, St. Louis, Mo. Darwood Sherriffs; Service Blue Print & Photo Copy Co., 816 A Pine Street, St. Louis, Mo., Carl G. Faith, Secretary; St. Louis County Blue Print Co., 28 South Central Avenue, Clayton, Mo., E. P. Kronsberg; Standard Blue Print Co., 1411 Harney Street, Omaha, Nebr., J. A. Swanson, manager; Western Blue Print Co., Inc., 813 Walnut Street, Kansas City, Mo., J. H. Wally, president; Stoble Photo Copy Co., 105 North Eighth Street, St. Louis, Mo., V. W. Stoble, president; Brady-Drake Photo Copy Co., 623 Chestnut Street, St. Louis, Mo., M. M. Drake, Jr., vice president; St. Louis Photo Print Co., Thirteenth Floor, Times Building, J. A. Silver, owner.

(The excerpt from the International Blue Printer magazine above referred to is as follows:)

WAR PRODUCTION BOARD STOPS ARMY'S COMPETITIVE PRINTING PLANS

Mr. Phillip B. Terry, vice-president of Spaulding-Moss Co., Boston, Mass., calls our attention to a recent case in which the War Production Board overruled the Army's plans to erect complete printing and bookbinding plants throughout the country to publish their books and pamphlets instead of contracting it to private industry.

This may be a forerunner to what can be expected in the case of reproduction work.

The following clipping from the Boston Herald of February 6, 1942, was attached to Mr. Terry's letter to Donald M. Nelson, printed below.

"WAR PRODUCTION BOARD PROTESTS SHELVE ARMY PRINT PLANT PLANS

"WASHINGTON, February 5.—Plans by the Army to erect complete printing and bookbinding plants in each corps area for the printing of pamphlets, booklets, and books of instructions for troops, were belated to have been sidetracked as a result of protests lodged with the military officials by representatives of the War Production Board.

"War Production Board is understood to have won its point today on the argument that the new plants not only would require large quantities of scarce materials for machinery and equipment but when operating would merely duplicate work which could be done as efficiently in private printing establishments throughout the country.

"According to reports here the incident is the first in which the 'toughness' of the new War Production Board in dealings with the military has been put to the test. At the time the Board was created under Donald M. Nelson it was announced that it would give final rulings on war-production matters and would not hesitate to challenge either the Army or the Navy on points involving procurement.

"Army officials were said to have ordered equipment for a large-scale publishing establishment near Wright Field, Dayton, Ohio, and to have asked for bids on other similar equipment to be used in the other eight corps areas, when the matter came to the attention of the War Production Board executives."

Mr. Terry's letter to War Production Board follows:

FEBRUARY 6, 1942.

Attention: Mr. Donald M. Nelson

Subject: Restriction of Army and Navy printing plants.

WAR PRODUCTION BOARD

Washington, District of Columbia.

GENTLEMEN: The photolithographic and blueprinting industries will be greatly heartened by the news in the attached clipping. They fervently hope it will be true; for it will, for the first time, put the finger on, and check an outstanding economic waste, and a production bottleneck.

Army and Navy plants, in this first Naval District anyway, and probably in all others, seem possessed to enlarge to dizzy heights, their blueprinting and photolithographic printing facilities, with callous disregard for scarce materials, and abundant local facilities to meet all their needs.

This zest for power and larger printing plants results not only in stripping local industry of its skilled help, but the production of inferior work, at much greater costs than ever would be tolerated by private industry, and hopeless confusion.

The plea for this expansion usually is secrecy. And to a limited extent, of course, this is justified; but local facilities can still produce as they have been right along, better work, cheaper, faster, and just as confidentially.

If War Production Board can induce army and naval units to concentrate on their own jobs and printing facilities already extant, and not try to compete with private industry, with disastrous results to the taxpayer, a tremendous forward step will have been taken.

Yours very truly,

SPAULDING-MOSS CO.
P. B. TERRY, *Vice President.*

J. A. FIRSCHING & SON,
Utica, N. Y., March 8, 1942.

HON. FRED J. DOUGLAS,

*Congress of the United States, House of Representatives,
Washington, D. O.*

HONORABLE DOUGLAS: I hear that they are going to start a new \$27,000,000,000-tax law for next year. As you know, we are a small business and it isn't bad enough that they don't give us anything to do business with—but they want to tax us until we don't have a thing left. I can't see the purpose of it and I don't think it is fair. I don't mind paying my share of the taxes any more than the other fellow but all these little businesses are getting the dirty end of the stick and they haven't done a thing in Congress to help us.

You know yourself that there are thousands of these small concerns going out of business every month because they cannot get the materials to operate. If we don't stay in business, the country certainly can't collect the taxes. Instead of fighting down in Washington about their personal problems, why don't they give us a little action on this.

There is plenty of materials in the country that they could give out and keep us going instead of taking every single thing. I know that we want to win this war, and we will win it—but we want to have something left, too, otherwise what are we fighting for?

I have tried to get Government work to help out, but the Office of Production Management here in Utica doesn't seem to know much about anything. We aren't in a position to do everything but I know that there are certain things we could do to help. It seems that the only ones who get anything are the big concerns and there is no reason why it shouldn't be divided up and let others stay in business too.

At the present time, at least 75 percent of our work is for textile mills who are working on direct Government contracts but our priority rating is no good and we can't get any of the materials we need. If we get an extension of the priority rating from our customer, then we can get only such an amount of materials as is needed on that particular order.

We can't make just one machine at a time or we would lose our shirts. We have to keep a stock on hand, too, for those who need replacement parts for these machines. They are just like the Government too—that is when they want something, they want it in a hurry.

It is getting worse all the while and it looks to me that if things go on as they are now, we will be out of business in another 6 months' time. We couldn't even buy a bar of steel with the priority rating we had.

Mr. Douglas, why can't the Government of the United States do something to help us, their own people, instead of hindering us. We have to live just like everyone else and I think and I believe that the people in this country ought to be taken care of first because certainly no one else is going to give us any help. The way things stand, we've got to win this war all by ourselves and we can do it and will do it.

Perhaps you think some of my remarks are a bit selfish but really, I'm not thinking of myself. I'm trying to look a little into the future. What good is this country without the small business concerns? They really made the country what it is.

I would certainly appreciate it very much if you could find a few minutes to let me hear from you on this, because really something should be done.

Sincerely yours,

J. A. FIRSCHING & SON.
BOB FIRSCHING.

KEEK GUILD, INC.,
Whitesboro, N. Y., March 3, 1942.

The Honorable FRED J. DOUGLAS,
House of Representatives, House Office Building,
Washington, D. C.

DEAR FRED: Perhaps a letter to my Congressman will ease my mind a bit, so here goes.

A lot of us are trying to continue to think clearly in the face of all that is happening that we know about and what we surmise is happening that we don't know about. What we have to surmise is happening is probably worse for our state of mind than what we know about.

Not many of us would complain too loudly if our business were lost in the shuffle and had to pass out of the picture if it was absolutely necessary in the furtherance of our war program. We will endeavor to hold somebody responsible if our businesses are needlessly sacrificed because of poor and incompetent planning in Washington.

As far as our own little business is concerned, we can probably make out with the 40-hour workweek, but as a general proposition I feel this provision of the Wage Hour Act very definitely should be repealed or in some other way made inoperative for the duration of the war.

Every worth-while civilian enterprise which can be saved will be a very tangible asset to the country when this war is over. Something must be left to build around, and it is the management and personnel of thousands of small businesses all over the country which should be preserved as far as possible to furnish the nucleus for the reconstruction period which is certainly ahead of us sometime in the future.

Too much attention is being given to restricting the use of certain materials instead of trying to increase the production or the supply.

One way to increase the production and prevent to a very appreciable extent some of the recent restrictions of use for nondefense purposes is to do away with the 40-hour week during this emergency. This is particularly true where the problem is 80-percent productive capacity rather than a scarcity of raw materials, such as cotton. Just how you can allow price ceilings to be set on commodities whose production costs have been figured on the basis of 40-hour workweek and labor runs 70 percent of the cost of merchandise and expect the producers to increase their production by paying time-and-a-half or double-time wages when labor just isn't available to increase production on basis of a 40-hour week doesn't make sense at all.

You know, and we all know, that the workweek in many industries could be increased to 44 or 48, and in some cases even more, without loss of production efficiency or undue fatigue or hardship on the part of the workers. No job should require more than a 40-hour week or possibly less if, because of the nature of the work, a larger workweek would result in greatly decreased efficiency or unreasonable fatigue or hardship on the part of the worker.

It looks to me as if we all have to make every possible sacrifice to win this war, and one of the first things which would do more to increase the morale of the great majority of people in this country and the boys in the Army, some of whom are coming back some day, would be to repeal this 40-hour-week provision of the Wage-hour law which was passed as an emergency measure and should certainly be repealed as an emergency measure. Believe a recent Fortune poll indicated 80 percent in favor of repeal.

You won't probably have the large organizations and corporations now working on war work on a cost-plus basis making any such suggestions, but we are all of us paying the increased cost resulting from time and a half and double time these plants are now paying. You know undoubtedly what many young men

are making in some of our local plants. This would be fine if the day of reckoning was not ahead of us. What are these young men who are now making \$50, \$75, and even \$100 per week going to do when work will probably not be available for them at one-third or one-fourth the wages they are now making? How will they pay their income taxes? When that time comes they will surely curse the hand that is feeding them so lavishly now. In a broader sense a really great injustice is being done to the young American workmen today who are allowed to make a great deal more money than they are worth on the basis of present living costs and standards.

The boys we are sending away to fight for us won't be on a 40-hour week. Are all the misfits and physically handicapped and aliens who are left home to work and who have taken the jobs of many now in the Army going to be allowed to profiteer on a time-and-a-half or double-time basis for the work they do during their absence in the armed forces?

Don't know of anyone who advocates a reduction in the hourly rate of wages, but I have yet to find anyone who honestly feels that the extra profit for labor under the Wage-Hour Act as it now stands is fair or just or warranted for the duration of the war or for any time thereafter as long as there is more work than workers to do the job on a 40-hour-week basis.

While the figures mentioned in the appropriations which Congress has passed is away beyond my powers of comprehension, I am quite sure that even this great wealthy country is not wealthy enough to stand such a strain for many years and possibly months without inflation; and if that gets out of hand, it is going to be very difficult, if not impossible, to win this war.

President Roosevelt and Congress have taken too long to handle this labor situation and adopt a proper and necessary war-labor policy. The idea of workers striking in shipyards or refusing to work on Washington's Birthday when our boys at the battle fronts are dying for lack of materials and reinforcements are the things which are making many of us see red—very red.

Wilson handled this situation much better during the last war and it should be work or fight again and now.

If the President will not act, then Congress should. Somebody somewhere somehow has got to see that the things which obviously must be done are done and immediately.

We must get economy in nonessential Government activities, and we must get an efficient Government set-up and organization to handle this war. England has made a pretty good start the past month. It can't take us 2 years or it will be too late. Far too many of our people do not realize yet that we are actually in the war, and I personally feel that our Government is largely responsible because they have not been honest with us and are still afraid to tell us what we have got to do and must expect to do to win.

Most of us are willing and anxious to do our part, but we must have strong, able leadership which will command the respect and confidence of all of us.

With kindest personal regards.

Sincerely yours,

LYNDE

L. D. HOKERK.

(Thereupon, at 11:30 a. m., Monday, March 16, 1941, an adjournment was taken.)

SMALL BUSINESS IN THE UNITED STATES

TUESDAY, MARCH 17, 1942

HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE TO CONDUCT A STUDY AND INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM IN ITS RELATION TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.

The select committee met, pursuant to adjournment, at 10:30 a. m., in the caucus room, Old House Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman (chairman), Bulwinkle, and Ploeser.

The CHAIRMAN. The committee will come to order.
Is Mr. Lewis here?

STATEMENT OF FULTON LEWIS, JR.

The CHAIRMAN. Mr. Lewis, suppose you give your name to the reporter and your business address.

Mr. LEWIS. My name is Fulton Lewis, Jr., and I am a news commentator for the Mutual Broadcasting System.

The CHAIRMAN. Mr. Lewis, we are investigating the sugar situation, and it is our understanding that you have some information that will possibly be of help to the committee. Any statement you desire to make concerning it will be very much appreciated.

Mr. LEWIS. Mr. Chairman, the information that I have is information that I have gathered in the course of my news work over the past 2 months.

I would like time to repeat on the record, to begin with, that coming at this stage of the game, what I have to say becomes more or less in the nature of history, and I don't want it to appear recriminatory, because after the appearance yesterday of Mr. Fraser Moffat, it would appear that, in the Division, they are doing whatever they can to cure the situation and the shortcomings in the picture as I found it. I shall, however, be glad, if you care for me to do so, to place before you my findings in the picture, and to begin with, my investigation—

The CHAIRMAN. We shall be very glad to hear from you, Mr. Lewis.

Mr. LEWIS. My attention was first called to this matter inadvertently through what we call in the press a "hand-out," a bit of news publicity from the distillers, who said that they had made an offer to turn their plants over in their entirety to the making of industrial alcohol out of grain, wheat, and corn rather than the making of liquor. That was the beginning, and virtually the end of the distillers' connection with the situation so far as I was concerned, and my interest in it on that occasion was only mild.

As I began to go into the picture and find out what was the background and what the necessity for the distillers turning over their facilities across maybe two-thirds of the country, I ran across some rather puzzling apathy, lack of interest, and almost antagonistic attitude on the part of the Industrial Alcohol Section of the Chemical Division of the War Production Board.

My chief contact there was a gentleman by the name of Dr. Peterson, a very delightful gentleman over the telephone, who describes himself as being a "gentleman farmer from Pennsylvania, who was here trying to do his bit."

In the course of interviews with him and with other people in the sugar picture, and with Mr. Leon Henderson, who, I think—in fact, I know—felt the pinch of this picture considerably, because Mr. Henderson was being accused in the public mind of reaching his hand into the public sugar bowl and taking their breakfast coffee sugar out, while, of course, Mr. Henderson merely had the job of rationing whatever amount of sugar was left over for him after the War Production Board got through taking what it needed for war production—I got these simple facts, that there were about 1,300,000 tons of crystalline sugar available in Cuba, in excess of what we normally would bring in; there was considerably better than 2,000,000 tons supply on hand here in the United States, all of which, from the information I have obtained from the Industrial Alcohol Section of the War Production Board, were being impounded in order that they could make industrial alcohol out of them, apart from the industrial alcohol that was being made from blackstrap molasses, which was coming in in huge quantities.

Now, quite naturally, in view of the importance of the industrial alcohol in the making of munitions, we must have industrial alcohol. However, when I began checking back on the distillers—and I might interject here, sir, that, as you doubtless found out yesterday, there are two distinct groups of distillers, the large ones that are equipped with extremely modern, up-to-date equipment, which are capable of turning out large quantities of 190-proof industrial alcohol, and which represents a little less than half of the total distilling industry, and the other half was the so-called little distillers who could not turn out 190-proof, and can turn out only 140-proof alcohol, which is not usable in that form in the making of munitions.

I contacted a number of large industrial alcohol plants, and to my astonishment I found that while this sugar was impounded for the making of industrial alcohol by those plants that use sugar for the making of it, there is something better than about three and one-half million tons of sugar so impounded for the making of industrial alcohol, and that a large number of distillers, the large distillers who could, by merely turning a valve, actually switch from the making of liquor to the making of 190-proof industrial alcohol, were actually not producing that at all. I inquired why they could not and they said that they had tried to find a market for it and they had been to Du Pont, they had been to Hercules, and they had been to the other powder concerns and they were told by those concerns that these concerns did not want alcohol, that they had a supply on hand to last them until probably May—April or May, and in some cases well into June, so they were satisfied.

The situation was simply this, that you had 3½ million tons of sugar impounded for the making—under the pretense of making highly necessary 190-proof alcohol, that was being held out of the public sugar bowl, and yet at the same time the distillers of the country who could at that moment begin to make alcohol out of grain, were not doing so, because they said they had no orders.

Now, I publicized that in my radio program and I had a further conversation with the Chemical Section of the War Production Board. Mr. Peterson did not like it, although he was very polite and very courteous in his statement that he did not like it—I don't mean to say that he was rude or discourteous in any way—Mr. Peterson said it was grossly unfair to have made that statement because actually the 190-proof distillers were in production, that he had issued an order on the 14th of January requiring that all of those distilleries immediately turn over to full production. He actually sent me a copy of that order of the 14th of January, in which the 190-proof distilleries were ordered to go exclusively to the manufacture of alcohol.

Subsequently it turned out, that despite that order that he sent over to me, the 190-proof distilleries did not go into production on that date. The order was issued on the 10th, becoming effective the 14th, and on the 13th the order was rescinded, the effective date of it was postponed until the 30th of the month. On the 30th of the month it was again postponed. The long and short of it was that it was well into the following month before that order got into effect.

Now, those distillers were able at that time, with distilled industrial, to produce about 90,000,000 gallons of 190-proof alcohol per year. Mr. Peterson's office, and Mr. Fraser Moffat's office insisted that the distillers did not know what they were talking about, that they could not produce more than 75,000,000 gallons a year. I think you will find, if you get the distillers here on the witness stand, that actually at the present time they are going better than 90,000,000 gallons a year. We still, sir, however, find that after we got into production, that you will have left over here your bulk of 140-proof distillers—the little fellows—there are thousands of them literally, in the distilling industry.

The CHAIRMAN. There are only seven of the large ones.

Mr. LEWIS. Only seven of the large industrial alcohol plants, but I think you will find there are more large distillers—Hiram Walker, and those concerns in the liquor distilling industry, there are more than seven that can produce 190-proof alcohol straight, outside of the liquor industry. However, I think you are correct, that there are seven so-called industrial-alcohol plants. We come to the problem then of trying to get into the fold—I might interject here for the record, that I finally got from Mr. Peterson a complete promise, avowal and statement, that all of these 190-proof distillers were being put immediately into operation. That was the first thing I wanted to do.

Then we come to the rest of the industry, that is, those little fellows, who can produce only 140 proof, which is not usable for a surplus of powder in that form. They have, if my memory serves me correctly, a total capacity on the freed operation basis, that is, without the restrictions of the liquor laws on them, which have been

removed or are being removed, for the purpose of allowing them to produce alcohol rather than liquor—they have a capacity of about 140 to 145 million gallons a year of 140 proof, which, when you transform that to 190 proof, is equivalent to something like 100 or 105 million gallons.

Now, you can see, sir, that we are now getting toward our needed goal of approximately 300,000,000 gallons of industrial alcohol a year, which is the reputed and stated goal that you must get for these munitions converted to war purposes.

We have got 90,000,000 gallons first of all from these 190-proof straight distillers. Now, if we can get another 100 or 105, we would be well up to the top, particularly in view of the fact of the synthetic alcohol production of something over 50,000,000, which have no effect on this one way or the other. You have got 250,000,000 right there. Then you would have also your blackstrap molasses production, which will run up the total secured by all of this distillery alcohol production coming from grains and not one bit of it from sugar.

I had some extended conferences with Mr. Peterson, and I was informed that—well, I had never run, Mr. Chairman, into so many reasons why a thing could not be done than I was given for the reason these little distillers could not be brought into this picture.

Mr. Peterson explained first of all, in very simple lay language, that it was necessary to change the stills, and it was impossible to change the still so that these little distillers could produce 190 proof, because that took very vast quantities of copper, and it was impossible to get priorities on copper.

As a matter of fact, distilling scientists told me, and engineers told me—and I don't pose as an expert on this, I merely repeat to you their statements to me—that the transition is a very simple transition; it simply means the addition of a couple of plates on the top of the rectifying tower, and in the course of my investigation I ran into several distilleries, who, without asking the Government at all, had gone ahead on their own and changed their 140-proof stills to 180- and 190-proof stills. One of them in western Maryland, for example—there are various others, I think, all over the country that are doing the same thing, and they seem not to require an amendment to the Constitution of the United States in order to get it done, they were doing it on their own voluntarily. That is one way of getting those little stills into 190-proof production.

Mr. Peterson explained, however, that aside from that, it would be impossible, there was also a shortage of vats. If you can get the additional vats, in many places there would be a shortage of water for cooling. I am told by the little distilling representatives here, that that shortage of water might be a fact in perhaps 1, 2, or 3 percent of the cases, but it certainly would not be true to any appreciable extent.

The other alternative for getting production out of these small distilleries, obviously, is to let them turn out—without any changes in their equipment at all—to let them turn out the 140-proof first that they are able to turn out, then take the 140-proof first to these industrial alcohol plants which could then redistill that 140-proof first made from grain as their distillate rather than a sugar ferment,

thereby getting the same amount of alcohol and getting it out of grain rather than out of sugar.

I was told by Mr. Peterson that the reason that was impossible was because there were not storage facilities at these various plants and there were no transportation facilities. I went actually to the individual plants; I took the trouble of contacting the individual small distilleries in person and asking them if it were possible for them to get storage facilities. The ones that I talked to said that storage was the least of their worries; that if the worst came to the worst, they could store the stuff in barrels until the collection cars came by to pick it up from them and take it to the 190-proof industrial alcohol distilleries.

The further I went into that matter with Mr. Peterson the more irate he became, and said it was utterly preposterous for the little people to talk about any solution of a problem like this; that there just was not a solution to it; that it was impossible to get these 140-proof distilleries into the picture.

In the meantime, I had also been in contact with Mr. Leon Henderson to get his views on the matter. He had been told by the industrial alcohol concerns, that is, the commercial industrial alcohol people, that the converted distilleries, and the original industrial alcohol stills could not handle 140-proof high wine spirits, as they call it, the produce of these small distilleries, because it would leave a gummy residue in their stills. That information had come to him from the Government experts.

I took the matter up with the Bureau of Standards, and with some scientists in the Department of Agriculture, and they said that was a fantastic pipe dream. Mr. Henderson since has found out that it was so.

The most troubling part of the whole picture at this stage was just this, that here we had all this sugar piled up, impounded, being held away from the public, and we had 1,500,000,000 bushels of grain over on the side which could produce alcohol just as cheaply and just as well, and be a partial elimination of the grain surplus that has been hanging like the sword of Damocles over the head of the farmers ad infinitum—instead of impounding this sugar and making the sugar into alcohol, and we were refusing to try to find a quite simple solution whereby this grain that was crying to be made into alcohol could be made into alcohol.

I found that Mr. Fraser Moffat, who was in charge of this section—I don't mean to impugn his motives—was, before he came to the Government, in the employ of the United States Industrial Alcohol Corporation, the outfit that was making alcohol from sugar. If Mr. Moffat, in spite of those outside interests, now is actually accomplishing the solution of the matter, I think that cures any little appearance that there might be in his position. I must confess that at the time that an official of a company that was—whose interest it was to make alcohol out of sugar—sitting in a policy position in the Federal Government and enunciating this policy whereby sugar was being held up to be made into alcohol under the processes of his company and grain was not being used, did have a very unpleasant touch to it from the standpoint of my humble standard of virtue. If that has been cured, if Mr. Moffat actually is doing everything in his power to

produce alcohol out of grain rather than out of sugar—and that, sir, is my only point, my full point, and my sole interest—I think he deserves the more credit.

I might say that about finishes my statement on the matter. My interest from here on is simply to see and to make absolutely sure that the promises of the War Production Board in this connection, that they are getting this solution, actually are carried out. If the promises made yesterday are carried out, to me the solution is quite satisfactory. The essential point, however, is whether in reality they are carried out, or whether that is merely ordinary promises, such as the first order of January 14, which was not carried out until the middle of February.

I offer myself for questioning, sir.

The CHAIRMAN. Is it your belief that there are people in positions such as you have mentioned who are retarding the efforts of the Government in its war-effort program for the purpose of possibly assuring and protecting their own business?

Mr. LEWIS. Well, that is a generalization, Mr. Chairman, that I would not like to make, because it is a rather broad charge. The Truman committee has made that accusation in their report. In this particular case I must be perfectly candid and frank, and I tell you that for a very considerable number of weeks in the beginning of my investigation I was thoroughly convinced that that was true in that particular case, thoroughly convinced of it.

The CHAIRMAN. You are still convinced that they could convert these stills, or the equipment, to the making of alcohol, industrial alcohol, from grain, without being hindered, as was suggested to you?

Mr. LEWIS. I am convinced of it, sir. They actually are converting them into that; the industry is convinced of it; every distilling engineer that I have talked to on the matter has been convinced of it. In fact, one stated that it is axiomatic, and the only persons that I ran across that were not convinced were Mr. Moffat and Mr. Peterson in the Chemical Division of the War Production Board in charge of the production of industrial alcohol.

The CHAIRMAN. If these plants are converted immediately, what effect will that have on the sugar shortage?

Mr. LEWIS. The sooner these plants are converted, the sooner our production is completely and totally from grain, the sooner we eliminate alcohol making a drain on the sugar supply—I unfortunately did not hear verbatim the testimony of Mr. Moffat yesterday, and I don't know exactly how fast he promised to do all this.

I might call your attention to one additional thing, Mr. Chairman, however, that aside from what I have told you, on the west coast, on the Pacific coast, the United States Government itself has a number of distilleries capable of turning out 75,000,000 gallons of industrial a year. I said the Government itself had them; the Government owns them by mortgage ownership through cooperatives; and the cooperatives have paid off very little on the mortgaged properties.

The CHAIRMAN. Through the Farm Security Administration, presumably.

Mr. LEWIS. That is right; the Government actually owns enough distilleries on the west coast of the United States to produce one-quarter of the entire supply, and those distilleries are shut down 8

and 9 months out of every year. They are shut down at the present time, and you have enough wheat and grain under Government mortgage on the west coast to keep those distilleries running, wheat and corn that you have stored up, that you have taken in under farm loans.

The CHAIRMAN. What about the objection that you cannot get materials necessary to convert those plants?

Mr. LEWIS. Those plants require no conversion.

The CHAIRMAN. Those plants require no conversion and they are capable of producing—

Mr. LEWIS. So far as the distilling situation is concerned, they require no conversion at all; they do require some conversion so far as the vats and fermentation goes, so far as the preliminary processes go; but so far as the actual distillation goes, those stills can turn out 190-proof industrial alcohol tomorrow.

The CHAIRMAN. 75,000,000 gallons?

Mr. LEWIS. 75,000,000 gallons and you only need 300,000,000.

The CHAIRMAN. Well, I believe that Mr. Moffat says 250,000,000 is what he wanted. Am I correct about that, Major?

Mr. BULWINKLE. Something like that.

The CHAIRMAN. Here I have the figures and break-down, is you would like to see them.

Mr. LEWIS. Thank you.

The CHAIRMAN. I cannot understand why they do not use those plants on the Pacific coast.

Mr. LEWIS. Well, the explanation offered for that was that it required some building of new vat facilities for fermentation purposes and more particularly that they did not have any grain out there. Well, as a matter of fact, if they had gone to the trouble that I went to, to pick up a telephone and call the Farm Credit Administration, and the Commodity Surplus Corporation, they would have found exactly how much they had there.

The CHAIRMAN. You mean they have grain, corn?

Mr. LEWIS. They have tremendous quantities of it stored up there.

The CHAIRMAN. Within a reasonable distance from these plants?

Mr. LEWIS. Within a reasonable distance from these plants, and there were large quantities that were, for example, transported to the Northwest for intended shipment to Russia, but never got off to Russia. Those large shipments are stored out there.

The CHAIRMAN. Are some of those plants at Seattle and Portland?

Mr. LEWIS. I think not; I think most of them are down in the Central California Valley. The transportation problem would be comparatively simple.

The CHAIRMAN. Yes. Major Bulwinkle, would you like to ask some questions?

Mr. BULWINKLE. Who is responsible for this statement that these plant facilities, that grain is not for use?

Mr. LEWIS. That, sir, I don't know of any on the west coast. The industrial fruit representative received a letter from the War Production Board, the Chemical Division of the War Production Board, saying that they did not want the facilities at this time. The point I make is that if they don't want the facilities on the west coast at this time, if they are not using the facilities of the distilling in-

dustry to the very utmost at the present time, it seems to me most unreasonable to be impounding 1,300,000 tons of sugar for one branch of the industrial alcohol production business to be used, taking that sugar out of the public sugar bowl. It may be necessary, sir, later—I don't know—it may be necessary before this thing goes through, to use some sugar for the making of industrial alcohol. If it is, or if we have to have that in order to get munitions out, for heaven's sake, let us have it; but in the meantime, unless it is necessary, as long as there are facilities for the making of industrial alcohol out of grain, it seems to me utterly preposterous to be holding up 1,300,000 tons of sugar, to make it out of sugar.

Do I make myself clear?

Mr. BULWINKLE. You certainly do.

The CHAIRMAN. Are there any further questions?

Mr. BULWINKLE. Yes. Who was it that told you that the Government had those distilleries on the Pacific coast?

Mr. LEWIS. I ran into that information, Major, in a most amusing way. I received a telephone call at dinner one night from California, and the gentleman talked to me for a half an hour there, and he told me about these facilities that he had out there—he had heard my broadcast earlier in the evening when he called us and told me that. I said, "To whom am I speaking?" And he said, "My name is Leonard. I used to be in the public eye myself; that was before I retired and came out here." He was the old baseball player—

The CHAIRMAN. Not Dutch?

Mr. LEWIS. Dutch Leonard. He is a moving and outstanding figure in California industry on the west coast. They have their own representatives here in Washington, the names of which I will be glad to give to the secretary of the committee here, if you care to call them.

Mr. BULWINKLE. Well, we might want some of them here before us.

How many distilleries did he say that the Government actually owned out there, and how many they had mortgages on?

Mr. LEWIS. According to the information that was given to me of this industry, the Government held a mortgage on all of these wine- and brandy-producing distilleries on the west coast.

Mr. BULWINKLE. Yes; but I understood you to say that there had been a foreclosure on some of them, that the Government had actual title.

Mr. LEWIS. No; I did not mean to create that impression.

The CHAIRMAN. The title then is still in the cooperatives?

Mr. LEWIS. The title is in the cooperatives; that is right. When I said the Government owned them, I meant owned them in the sense that it holds a mortgage on them.

Mr. BULWINKLE. So the Government does not actually own the title to any of it at all.

Mr. LEWIS. I think not. I think the title is actually listed in the cooperatives' names.

Mr. BULWINKLE. Now, then, who was it that gave you the information about the wheat and corn on the Pacific coast?

Mr. LEWIS. The Commodity—

The CHAIRMAN. The Credit Corporation?

Mr. LEWIS. The Commodity Credit and Surplus.

The CHAIRMAN. Commodity Credit Corporation.

Mr. LEWIS. Yes.

The CHAIRMAN. Now, the surplus market—

Mr. LEWIS. I shall be very glad to give the name of the individual with whom I talked to the secretary of the committee.

Mr. BULWINKLE. How much wheat did he say the Government had out there?

Mr. LEWIS. At the moment I don't remember—I may have that in here. I remember figuring the thing down, sir; I remember figuring it down and reducing it down to the number of gallons in production, if that is what you mean.

Mr. BULWINKLE. Yes.

Mr. LEWIS. And it was more than enough to keep those distilleries busy out there for a considerable period of time, for a number of months.

Mr. BULWINKLE. Did the Commodity Credit Corporation tell you whether or not the title had been transferred in the wheat to the Russian Government yet?

Mr. LEWIS. Oh, to the Russian Government?

Mr. BULWINKLE. Yes; you said it was for shipment to Russia.

Mr. LEWIS. No, sir; they did not.

Mr. BULWINKLE. So you have no information then, as to whether or not the title in that was in the United States Government or in the Russian Government.

Mr. LEWIS. No; and furthermore, sir, I might say, to be strictly accurate, I might tell you one other thing, too, and that is that the wheat that they were talking to me about was divided into two lots, wheat and corn was divided into two lots, part of it grain on which the right of the farmer had been forfeited, that is, the Government had taken actually in foreclosure the grain mentioned.

Mr. BULWINKLE. Yes.

Mr. LEWIS. And the remainder was grain on which the loans were still pending.

The CHAIRMAN. Pledged?

Mr. LEWIS. Pledged, there was a very, very considerable quantity.

Mr. BULWINKLE. In which the Government actually had the title?

Mr. LEWIS. That is right. It occurs to me, however, Major, if you have the grain on hand, you can do something about the legal title in the matter one way or the other. You can take it out of a block.

Mr. BULWINKLE. You have not been up against the farmers on the committee yet; have you?

Mr. LEWIS. No, sir; I have not, although I think the farmers would kind of like to get it used up, would they not?

Mr. BULWINKLE. At a fair price.

Mr. LEWIS. At any price, so far as I am concerned.

Mr. BULWINKLE. I am talking about them.

So you do not have right there the amount of actual bushels?

Mr. LEWIS. No, sir; I will be delighted to give those figures to the secretary of the committee, as I used them.

Mr. BULWINKLE. And you say that was the Commodity Credit Corporation?

Mr. LEWIS. Yes, sir.

Mr. BULWINKLE. Do you remember the name of the man?

Mr. LEWIS. I don't, but I think I have it.

Mr. BULWINKLE. If you will give the name to Mr. Patman, I will appreciate it, please, because we may want to talk to them out there.

That is all, Mr. Chairman.

The CHAIRMAN. These hearings are printed each night. Tomorrow morning we will give you the unrevised print, if you would like it, and you can add that information to the revised copy.

Mr. LEWIS. Thank you very much, Mr. Chairman.

The CHAIRMAN. Any further questions?

Thank you very much, Mr. Lewis, thank you very kindly.

Mr. LEWIS. Thank you, sir.

(Witness excused.)

The CHAIRMAN. Mr. McNamara.

Mr. ADAMS. Before Mr. McNamara testifies, I would like to say that I am counsel for the Chemical Division of the War Production Board.

The CHAIRMAN. Suppose you give your name to the reporter for the record.

Mr. ADAMS. My name is Warren Adams. I am counsel for the Chemical Division of the War Production Board. I think it would be unfortunate if the record showed that the War Production Board has a Pennsylvania farmer running that alcohol picture there. I would like to make the statement that he is a distinguished chemical engineer. I would like to submit a statement as to his business connections—

The CHAIRMAN. All right; we would be delighted—

Mr. BULWINKLE. Sit down right now.

The CHAIRMAN. Yes; we will give you every opportunity; there will be no advantage taken.

All right, now, Dr. McNamara.

Mr. ADAMS. I would just like to explain—

Mr. BULWINKLE. Don't you want Mr. Adams first?

The CHAIRMAN. Yes; Mr. Adams, go ahead and make any statement you desire to. Give your name and official position for the reporter.

Mr. ADAMS. My name is Warren S. Adams, II. I am counsel for the Chemical Branch of the War Production Board.

I think Dr. Peterson was overly modest in just describing himself as a Pennsylvania farmer. Although I am not completely familiar with his antecedents in the chemical field, it has always been my understanding that he has occupied a very prominent place in the chemical engineering in this country. So much for Dr. Peterson.

Another one of Mr. Lewis' statements that I think should be corrected is, Mr. Fraser Moffat's connection with the United States Industrial Chemical Co. When Mr. Moffat came to the War Production Board, then the Office of Production Management, he severed all his connections with the U. S. I., and all of its subsidiaries, so we do not have a man connected with private industry sitting in on the councils of the Office of Production Management, or the War Production Board; that any schemes and plans of Mr. Moffat as chief of the alcohol unit are subject to review and were always scrutinized

by Mr. Henderson, Deputy Director of the Materials Division, Mr. Batt's assistant.

The CHAIRMAN. Do you mean Leon Henderson?

Mr. ADAMS. No; Mr. Alexander Henderson.

The CHAIRMAN. Well, understand, I am not questioning these people just because they are "dollar-a-year men." That does not mean anything to me, because I think one of the best men we have had in the Government was Donald Nelson. He was a dollar-a-year man. It does not indict him at all, to say that Mr. Moffat is a dollar-a-year man.

Mr. ADAMS. He is not, he is in the employ of the Government. He has completely severed and did sever when he came down here, all his connections.

The CHAIRMAN. He is a regular employee receiving a salary like anyone else in his position?

Mr. ADAMS. Absolutely. I don't want the record to show, as Mr. Lewis said, that he was a paid man of industry down here.

The CHAIRMAN. All right, have you finished your statement?

Mr. ADAMS. Thank you, very much.

Mr. BULWINKLE. I just want to say something there. I feel, too, Mr. Adams, with the chairman, I don't like this idea, just because a man has been connected with some industry, that if he is down here he is not going to be straight and clean. We are in an emergency now, and we need the best brains and we need the best talent, I don't care who it is. If there is something crooked in any man, I will go after him in a minute, but just because he has had connections, I think that man is just as patriotic as you or I, and he ought to be given credit for the work that he is doing.

The CHAIRMAN. I share that view, too, Major. I am not one to criticize a man because he is a dollar-a-year man at all. I think that some of our best men and most patriotic citizens, men who are rendering the greatest service, or service as great as anyone would render, were dollar-a-year men, and because they were or are, I am not willing to indict them or condemn them for it.

I can see, however, where, if the situation should arise, that the public could not yet understand why anything is not done, that they are sacrificing, and this situation could be remedied, and some person in a bottleneck position who has formerly been connected with industry that might benefit from it, where they might suspicion something.

Mr. BULWINKLE. Yes.

The CHAIRMAN. And that is the good thing about a hearing of this kind. We can hear both sides, and clear it up: Those charges have been made before the House.

Mr. BULWINKLE. I know that. There is always somebody ready to criticize. I ran for office once, and the other fellow said I was a railroad attorney carrying a pass, and so I made a speech; I said, "Yes; I am carrying six passes, here they are," and I heard nothing more about it.

The CHAIRMAN. I think they had very little opportunity for questioning you.

Mr. PLOESER. Mr. Chairman, might it not be added also that honorable men usually bend backward, trying not to favor the concerns

with which they have been previously connected, and that we might at least expect from honorable men in dollar-a-year positions.

Mr. BULWINKLE. Or any other position.

Mr. PLOESER. That is right.

The CHAIRMAN. All right, Mr. McNamara, will you give your name and official position and address to the reporter.

Mr. McNAMARA. My name is Matthew J. McNamara. I am special assistant to Mr. Alexander Henderson, Deputy Director of the Materials Division.

The CHAIRMAN. Who is the Director?

Mr. McNAMARA. Mr. Batt, I believe; Mr. William L. Batt.

The CHAIRMAN. Mr. William L. Batt; and he is directly under Mr. Nelson?

Mr. McNAMARA. He is; yes, sir.

The CHAIRMAN. Where does Dr. Peterson come into this picture?

Mr. ADAMS. Dr. Peterson is chief of the organic unit, which is a unit in the chemical branch; formerly the alcohol unit was under Dr. Peterson, which now is a separate unit.

The CHAIRMAN. And then under Mr. Batt and under Mr. McNamara?

Mr. ADAMS. It is under Mr. Batt, it is under Mr. Henderson, it is under Dr. Reed, and then under Dr. Peterson and Mr. McNamara is Mr. Henderson's special adviser.

The CHAIRMAN. Mr. Alexander Henderson?

Mr. McNAMARA. That is right.

The CHAIRMAN. Would you like to make a statement, Mr. McNamara, about the sugar situation?

Mr. McNAMARA. Perhaps it might be better, Mr. Chairman, to explain my status down here and the thing I am striving to do.

I came from the distilled spirits industry. I have been asked to come down here by Mr. Henderson to aid in turning over the bulk of the whisky industry to manufacturing of grain ethyl alcohol.

The CHAIRMAN. When you mention the name Henderson, I think it would be as well to state which Henderson, because Mr. Leon Henderson holds a very prominent position here.

Mr. McNAMARA. This will always mean Mr. Alexander I. Henderson.

I came down here, as I say, to help in converting the whisky industry over from whisky to grain ethyl alcohol. I know something of the matter, in the sense that I have been here a month, and the task has been a very pressing one, as you can understand, because so much is special—

The CHAIRMAN. What did you do before you got here, Mr. McNamara?

Mr. McNAMARA. I was vice president of the National Distilleries Production Corporation for the course of about 20 years.

The job, as I see it, breaks into 2 separate tasks, one is to swing into line all of the plants that are or have been able to make 190-proof alcohol, which is the product that is needed for smokeless powder—we have some borderline plants in that group that can make up to 185 or 188, but cannot quite come to 190 as it stands today. We have more than 15, close to 20, such plants in complete operation.

Fortunately they are the largest plants in the industry. We brought in one last week that has a contribution of 4,000,000 gallons a year, which I think is quite credible.

I am hopeful before 30 days has passed that we will have minor changes permitting 10 to 12 plants, to be able to bring them into full production as well, and I will have information that might be helpful to you. I would estimate that those plants, which may total 30 in number by the time we are finished, can turn out annually 100,000,000 wine gallons of 190-proof alcohol. I call that one side of the job, and really, not a very difficult one.

The other side of the job involves the marshalling of some 85 distilleries sprinkled through Kentucky, Pennsylvania, and Maryland, who can make nothing but what we call high wines, which in proof range from about 125 to 140 proof. That product has to be moved some place to be redistilled up to 190 proof before it is available for war uses. The output of these 85 plants is quite astounding, whether you take it in terms of a day or a year, and the fact that we have so few plants equipped to redistill the product makes this side of the job a rather tedious and careful one, and one in which we cannot make the speed that we would like to make.

We have to take fully 400,000 gallons a day from eighty-odd distilleries to be redistilled in what appears to be not more than six or eight plants that can handle the finished product.

Being liquid and in such large quantities, of course, it involves the use of tank cars, and we have been warned that tank cars are a very scarce article and that we should use as few of them as we can.

We have another problem with these 85 distilleries, in the sense that they have very, very small storage. Whisky distillers, as you know, put their whisky in 50-gallon barrels and put them in the warehouse, but they have no storage at all for bulk, except in what they call the cistern room, and there in most cases, as we go along, we find that he has perhaps 2 and perhaps 3 days' storage, but I might put it another way. In some distilleries their output is so small, and still so valuable, that they may not be able to turn out a full tank car in less than 10 days, or 3 cars a month, and we have got to fit that situation, as we have taken measures to do.

I might tell you this, immediately upon landing here I felt that the physical information about one hundred and thirty-odd plants ought to be as definitely in our hands as we could get it from the records, and we have been able to get an immense amount of help from the alcohol tax unit of the Internal Revenue Department. The liquor business, as you know, is perhaps the closest regulated private industry that I know of, and they keep a record of all the premises. Now the records that they had covered only those which were pertinent to the collecting of the revenue. The information I wanted had to do with whether they had sidings or did not have sidings; whether they had storage or did not have storage, and the tax unit, with ourselves, prepared what we thought was a very instructive questionnaire, which they sent to their 15 supervisors, who in turn sent their storekeeper gaugers out to every one of those plants—I am speaking of including those which are inactive as well as active plants. It was hoped that this information would be in our hands on the 10th of March. We

did not get it as rapidly as we wanted, but we think before this week is over we will have it in our hands. With that in our possession, and with the assistance of the chemical engineers whom we have been using as a field man—we need 4 or 5 more presently—we hope to do two things, Mr. Chairman. We hope first of all that we will discover storage at the small plants, so that when a tank car comes along it can be immediately filled and taken out. Otherwise we face the grave danger of ditching.

We hope, too, to take some 16 or 18 rectifying columns, as we call them, which are now in California, in several of the many brandy plants out there; we want to dismantle them and move them east and set them up in appropriate high-wine plants in Kentucky, Pennsylvania, and Maryland, which, when installed, will make those plants as independent 190-proof producers as the 20 or 30 that are now on the job. That will help to cut down at least two-thirds of this wearisome movement of the high wines. Again time is involved here, and I am afraid to predict until I see just exactly how these columns will fit into the distilleries in the east, when the job will be done. I cannot tell you whether it is going to be 3 months or 6 months, but the change, when all those apple plants are added and we get going along, I am quite sure that in addition to the 100,000,000 gallons that the existing plants ready to go are now producing, we can add, roughly, another 100,000,000 from this industry.

Now, we had some other difficulties; as we went along here we found that under the law we could not produce alcohol and whisky in the same plant at the same time, nor could we work on Sundays, and the Congress was helpful to us in passing what I identify as the Gerhardt bill, about the middle of—

Mr. ADAMS. January 24.

Mr. McNAMARA. January 24. That permitted some plants that otherwise could not, under the law, produce, to produce, and Congress has been helpful, too, in the sense that I believe on Friday or Saturday last a bill introduced, I think in the House by Mr. Doughton, will permit us to take this 140-proof high wine that I speak about and move it actually to the redistiller, which up to the moment has been against the law.

If I can assist further, Mr. Chairman, I will be glad to.

The CHAIRMAN. You mean a bill was introduced by Mr. Doughton on last Saturday, or did it pass the House?

Mr. McNAMARA. No; it passed the Senate last Friday or Saturday.

The CHAIRMAN. It had already passed the House, of course.

Mr. ADAMS. Yes, sir.

The CHAIRMAN. Has it been approved by the President?

Mr. ADAMS. No; it has not.

The CHAIRMAN. When was that change in the law asked for, if you can remember?

Mr. ADAMS. If I can remember, I think it was about the first week in February.

The CHAIRMAN. About the first week in February?

Mr. ADAMS. We asked to have the high-wines bill passed which would enable us to tap the high-wine capacity of this country, which hitherto has not been available to us.

The CHAIRMAN. Now, some of these questions you have touched on, but I wish you would answer them completely for the record, if you will.

Mr. McNAMARA. Yes, sir.

The CHAIRMAN. Is there any good reason why the sugar-alcohol companies cannot redistill 140-proof alcohol into 190-proof industrial alcohol?

Mr. McNAMARA. There is no good reason why they can't; it is purely a question of transportation.

The CHAIRMAN. Have the seven sugar-alcohol companies in the United States the existing capacity to redistill all the 140-proof grain alcohol that the small distillers can produce?

Mr. McNAMARA. Most of them.

The CHAIRMAN. Using the available supply of blackstrap as a raw material for sugar-alcohol—how much redistilling capacity has the seven United States companies?

Mr. McNAMARA. Using the available blackstrap?

The CHAIRMAN. Yes; using the supply of blackstrap as the raw material for sugar-alcohol—how much additional redistilling capacity have the seven United States companies?

Mr. ADAMS. Between 75 and 100 million.

Mr. McNAMARA. To give me a minute to expand there, I would say, of course, 100,000,000.

The CHAIRMAN. Yes; that increase is 100,000,000, you say?

Mr. McNAMARA. Yes.

The CHAIRMAN. Have we sufficient tank-car capacity to move all the output of 140-proof grain alcohol to the redistilling centers—you said a while ago it was a question of transportation.

Mr. McNAMARA. I would doubt that very much, based upon the experience we have had with transportation. In fact, they feel very reluctant to assign us tank cars.

The CHAIRMAN. Well, there should be some information that will be just a little bit more definite than that, I should think, Mr. McNamara. Do you know how many tank cars are available?

Mr. McNAMARA. No; I do not know.

Mr. BULWINKLE. That comes under Mr. Eastman.

Mr. McNAMARA. That is right.

The CHAIRMAN. Don't you think that would be very important to know?

Mr. McNAMARA. Yes; we have asked for it.

The CHAIRMAN. Oh, you have?

Mr. McNAMARA. We have asked them to assign a number of cars to us.

The CHAIRMAN. How much of the country's total capacity of industrial alcohol will be distilled or redistilled near smokeless powder plants?

Mr. McNAMARA. From corn?

The CHAIRMAN. Well, of course, that would be an important question there. It is not separated. Suppose we separate it.

Mr. McNAMARA. From corn, I would judge that practically 85 per cent of the current high wines, the high proof, would be in the reasonable vicinity of powder plants.

The CHAIRMAN. And the other.

Mr. McNAMARA. As to the alcohol made from molasses, I venture to say that all of that is within the region of the powder plants.

The CHAIRMAN. This committee was informed yesterday that 60,000,000 gallons of 190-proof industrial alcohol was needed for anti-freeze products, and an additional 75,000,000 gallons was allocated to other civilian uses or needs. Do you know what these other civilian users are? Or civilian uses.

Mr. McNAMARA. I cannot help you on that, Mr. Chairman; I am unable to tell you almost anything about grain.

The CHAIRMAN. I know, we asked Mr. Moffat something about that and he broke it down partially. Do you know how much of the 1942 Cuban sugar crop has been turned into high-test molasses?

Mr. McNAMARA. I don't.

The CHAIRMAN. Have you sought that information?

Mr. ADAMS. I may say, Mr. Patman, that Mr. Mason of the Defense Supplies Corporation is in Cuba at the present time making a study into the production from sugar, and he would have the figures.

The CHAIRMAN. He will be back soon, I presume.

Mr. ADAMS. Oh, yes; and undoubtedly the Defense Commodities Corporation have the figures right now.

The CHAIRMAN. Mr. McNamara, are you or any member of your conversion unit represented on the Sugar Advisory Board?

Mr. McNAMARA. Nobody in my group.

Mr. ADAMS. We do not have anybody from the chemical branch. We have somebody in the War Production Board, of course.

The CHAIRMAN. But on your particular conversion unit, ordinarily, well, I cannot—I am not familiar with it and I am not criticizing anyone for failure to put one from the conversion unit onto the Board, but ordinarily I would think that a representative should be there.

Mr. McNAMARA. Of course, this conversion unit that you speak of, Mr. Chairman, came into existence only the middle of last week. After all, it is along the line that I have been working since I came down here.

The CHAIRMAN. They would, except for the fact that the time has not been sufficient?

Mr. McNAMARA. That is right.

The CHAIRMAN. Is your section under the supervision of Mr. Moffat, chief of the alcohol unit, War Production Board?

Mr. McNAMARA. No, sir.

The CHAIRMAN. You did explain that in the beginning.

How long do you estimate that it will be before you have completed this conversion job?

Mr. McNAMARA. That is a rather broad question. If we come to what appears to me to be the full limit in talking about 200,000,000 wine-gallons coming from grain, half the job, as I have said, is done.

Now, practically, as it is now.

The CHAIRMAN. That is, through that much conversion?

Mr. McNAMARA. Yes; the other half, I am inclined to think, will take the remainder of the year.

The CHAIRMAN. What about the plant capacity that Mr. Lewis spoke of that is idle several months of the year? Are you familiar with that?

Mr. McNAMARA. Rather—he is speaking about California, I believe.
The CHAIRMAN. Yes; he is.

Mr. McNAMARA. Well, the California picture boiled down is about like this. Naturally, their greatest and biggest product is wine, in terms of spirits. It requires spirits for fortifying what they call sweet wine, and, of course, they make American brandy as such. Their raw material is the pulp and offal that comes with the grape harvest, and consequently they have to distill that product while the harvest is on, which rarely exceeds 60 days, so they have a tremendous overage of actual distilling capacity idle 10 months out of the year, because essentially they are winers and not distillers.

The CHAIRMAN. All right. Let us get right down to the point. Is his statement a correct one, or was he misinformed about converting it?

Mr. McNAMARA. I think I would like to finish—

The CHAIRMAN. Oh, I beg your pardon.

Mr. McNAMARA. Because they are essentially winers, they do not balance their plant in terms of distillation as the eastern distiller would.

If we shipped a carload of corn into a plant in California, they would not know what to do with it. They have few corn-grinding equipment; they would have to take their vat driers and use them for fermentation purposes; they would have few cookers with which to prepare the grain; and they would have no beer still through which to run it; they would have—as I said a moment ago, very excellent rectifying columns with which to finish it. To use that we would have to bring the mountain to Mohammed, sir, or that equivalent.

We find that in California there is a theoretical daily production in the stills of close to 1,000,000 gallons daily. We believe that if about one-third of that, in the form of 16 or 20 rectifying columns could be dismantled and moved east to the largest of the high wine plants that we were talking about, and set up, that that would still leave perfectly adequate capacity in California so as not to disrupt their business when their harvest comes, and still equip the greater part of those high wine distilleries in the East so that they would be as independent and as completely 100 percent as the 100,000,000 gallons I talked about now being in production.

Does that answer your question?

Mr. BULWINKLE. No, not quite. What I would like to ask you is this; I understood Mr. Lewis to say that there were too many distilleries from what we call grain going through those distilleries as they are now—

Mr. McNAMARA. No.

Mr. BULWINKLE. You have explained the reason why.

Mr. McNAMARA. I have tried to.

Mr. BULWINKLE. Yes.

The CHAIRMAN. How much trouble would it be to furnish the equipment and do the things you say are necessary?

Mr. McNAMARA. Vastly more trouble, Mr. Chairman, than to take 16 rectifying columns and bring them east, and I might add a tip on that, that the chief market for the finished product is definitely this side of the Mississippi.

The CHAIRMAN. And you think—

Mr. McNAMARA. If we had the finished alcohol in California today we would have to move it East to find a market.

Mr. BULWINKLE. You don't know anything about the distilling business, do you?

The CHAIRMAN. No; I was prosecuting attorney for years in Texas, and I prosecuted a lot of bootleggers.

Mr. BULWINKLE. How many gallons of alcohol do you get out of a bushel of corn?

Mr. McNAMARA. We get about 2½ wine gallons of 190 proof for a bushel. That is a pretty good conversion, we think.

Mr. BULWINKLE. We used to make about 3.

The CHAIRMAN. You mean under Government supervision?

Mr. BULWINKLE. No.

Let me ask you how many distilleries are there in the United States.

Mr. McNAMARA. We have about 125 registered beverage distillers; we have about 30 more which are not active in the sense that they are in actual operation, and that is without including what we call fruit distillers, such as California grape that we have just been speaking about, and apple-brandy distillers here in the East. I think in California there are upwards of 100 distillers that have a permit and I think among the fruit distillers in the East you might count 30 more; they are all rather small.

Mr. BULWINKLE. So in all there you have around 200 distilleries?

Mr. McNAMARA. Something like that.

Mr. BULWINKLE. I was trying to find out—I understood Mr. Lewis to state that there were great quantities of distillers in the United States, just how many do you remember, Mr. Chairman?

The CHAIRMAN. I don't remember, he said—

Mr. ADAMS. He said thousands.

The CHAIRMAN. As the Major said, I don't know anything about the distilling business, but you mentioned a while ago that it would be easier to remove certain equipment from the west coast back East than it would be to furnish the additional equipment that would be needed to make industrial alcohol out on the Pacific coast.

Mr. McNAMARA. Yes, sir.

The CHAIRMAN. When you move that material or that equipment back East, will you have this additional equipment back East already that you now need on the Pacific coast to make this alcohol?

Mr. ADAMS. We will.

Mr. McNAMARA. We will, Mr. Chairman.

The CHAIRMAN. In other words, it is just assembling it in the East instead of assembling it in the West.

Mr. McNAMARA. It is just adding one more piece of apparatus to what already exists. We have the corn grinder, we have the fermenters, and we have the cookers, and we have the beer stills.

The CHAIRMAN. Sufficient capacity to take care of this additional equipment that you are bringing here?

Mr. McNAMARA. Yes.

The CHAIRMAN. I mean, pertaining to the additional equipment.

Mr. McNAMARA. Yes. The biggest puzzle we will have is to find out whether the still of Mr. A's plant in California will fit Mr. B's plant in Louisville, and we are struggling to do that.

The CHAIRMAN. What are you doing? You bring this equipment east? Have you conducted an analysis of the operation to enable you to reach an adjustment and settlement of that?

Mr. McNAMARA. No; we have not reached that stage, and we will not until we can come into possession of that physical information on these plants from the Alcohol Tax Unit, perhaps tomorrow or within this week, in any event.

The CHAIRMAN. And you are working on that as rapidly as you can, I presume?

Mr. McNAMARA. We also have some field men representing the industry coming in on Friday of this week and hope to explain further about these stills.

The CHAIRMAN. Do you expect at some time in the near future that you will be making all your industrial alcohol from grain and none of it from sugar?

Mr. McNAMARA. I would not think so.

The CHAIRMAN. Or at any time even in the distant future?

Mr. McNAMARA. No; I would not think so.

The CHAIRMAN. You do not think that that time will ever come then?

Mr. ADAMS. I think, Mr. Chairman, if I may interrupt, there is some contemplation that we will not be using any sugar, we will be using blackstrap molasses, which is a byproduct of sugar, but it does not impinge on the sugar supply; that evidently he does not expect to use any invert molasses, which is the grade of molasses which does go into the sugar supply.

Mr. McNAMARA. In normal times molasses for civilian companies would be the cheapest of raw materials; grain would absolutely be competitive.

Mr. PLOESER. Do you think there will be no attempt made to use the overage of stills in California during their idle period by supplying the primary machinery, as I understood you to describe it, for what production might be needed west of the Mississippi?

Mr. McNAMARA. No; we have some good-sized molasses plants on the west coast, in addition to the brandy plants that we are talking about, and we have three of them that get their normal supply from Hawaii, blackstrap molasses, and one of those is being additionally equipped to run grain, and from the best figures we can put together those plants would actually take care of any industry that California needs.

Mr. PLOESER. What about corn?

Mr. McNAMARA. Corn or molasses.

Mr. PLOESER. There is a possibility, of course, that imports from Hawaii might have to be curtailed drastically.

Mr. McNAMARA. That is right.

Mr. PLOESER. They are now being curtailed. Do you think then, that there would be sufficient capacity to use the corn?

Mr. McNAMARA. Yes; I am rather inclined to think that we are oversupplied with both materials and apparatus on the west coast, and I wish to say the same thing on the east coast.

Mr. BULWINKLE. I was interested just now in what Mr. Lewis said, that there were some of those distilleries which, by just the change

of a valve could change over from the use of sugar to grain, and that that is all that is required. What about that?

Mr. McNAMARA. I wish it were that simple, Major. We have a few plants that can alternate from corn to molasses, very few, unfortunately, but I think they are also very big, and those plants, to the extent that they can ferment and distill corn, are going to the full limit, but outside of perhaps two plants like that—and it is much more than just turning off a faucet—outside of that, we are building so that we can either use molasses or use grain that we make up from synthetics.

Mr. ADAMS. Major, may I say that I think you misunderstood Mr. Lewis. He said, I think, that by turning a valve they could change from whisky production to alcohol production. I believe that was his statement that our existing distillers could just go out—

Mr. BULWINKLE. That may have been, I may have misunderstood him.

Mr. McNAMARA. If he said that he would be right, to the extent that there are plants which are now in production.

Mr. ADAMS. He would be right only after the Gerhardt bill was passed. There was a legal restriction against whisky distillers producing alcohol. You simply could not withdraw from whisky distillers above 159 proof, and smokeless-powder plants are not interested in anything that low.

Mr. BULWINKLE. The storekeeper-gauger would get after them.

Mr. McNAMARA. That is right.

Mr. BULWINKLE. All right, that is all.

The CHAIRMAN. Any other questions?

Thank you very much, Mr. McNamara.

(Witness excused.)

The CHAIRMAN. All right, Mr. Goodloe.

Will you please state your name.

Mr. GOODLOE. John D. Goodloe, vice president, Defense Supplies Corporation.

The CHAIRMAN. I believe you have something to do with the Cuban contracts, what is known as the 1942 Cuban contract.

Mr. GOODLOE. Yes, sir; the contract between the Defense Supply Corporation and the Cuban Sugar Institute for the '42 crop.

The CHAIRMAN. Why was it specified that in the agreement between the Defense Supplies Corporation and the Cuban Institute, one-third of the Cuban 1942 sugar crop must be delivered in the form of invert molasses?

Mr. GOODLOE. My understanding is that was the quantity at that time that was estimated to be needed urgently for the production of high proof alcohol.

The CHAIRMAN. What steps were taken with the Maritime Commission or any other agency to be assured of the availability of tankers to bring the molasses from Cuba to the United States?

Mr. GOODLOE. In short, I should say every step that one could take in conditions like today, to secure transportation. We have been working almost daily with the Maritime Commission on the estimate of tanker supplies that would be available from time to time and then definite schedules, as many weeks in advance as possible.

The CHAIRMAN. How many tankers carrying either sugar or molasses have been lost the last 69 days during this submarine warfare?

Mr. GOODLOE. There was one loaded and one empty.

The CHAIRMAN. One loaded and one empty.

Mr. PLOESER. That one was sunk up here in the Delaware Bay, wasn't it?

Mr. GOODLOE. They had one that was damaged to a small extent, and it was a collision that sank the loaded vessel down near Charleston.

The CHAIRMAN. Well, I mean under any flag, I don't necessarily mean our own flag.

Mr. GOODLOE. Yes, sir. You are speaking of molasses tankers only?

The CHAIRMAN. Or anything containing sugar, or anything that sugar might be loaded on.

Mr. GOODLOE. There were two in molasses, one of them loaded and one empty. The newspaper reports two vessels with sugar but we have no official notice of that yet.

The CHAIRMAN. What is the approximate molasses storage capacity in Cuba?

Mr. GOODLOE. The only capacity, as I understand, is around 200,000,000 gallons. Later on we hope storage may be used which might extend to a maximum of another sixty or seventy-five million.

The CHAIRMAN. Has the 100,000,000 gallons of invert molasses specified in the contract to be ready March 15, 1942, been delivered in full? How much has been delivered? How much has been ditched?

Mr. GOODLOE. None has been ditched, and by delivered, do you mean here or in Cuba?

The CHAIRMAN. Well, suppose we make it in Cuba first and then here.

Mr. GOODLOE. There has been about 20,000,000 delivered here.

The CHAIRMAN. 20,000,000 here, and how much in Cuba?

Mr. GOODLOE. Probably sixty to seventy million.

The CHAIRMAN. Sixty to seventy million. Could the agreement, that is, between the Defense Supplies Corporation and the Cuban Government, be amended quickly?

Mr. GOODLOE. I am not sure I understand the question. You mean amended with reference to the percentage of invert?

The CHAIRMAN. Well, anything in it, could you—how much trouble would you have to go to to change it by agreement, or could it be changed quickly with reference to any important part?

Mr. GOODLOE. No; it would require considerable negotiation to amend the agreement, and if the time consumed in the original agreement is extended in comparison, it would take quite a lot of time.

The CHAIRMAN. How long did it take in the original agreement?

Mr. GOODLOE. Several months.

The CHAIRMAN. Does the Defense Supplies Corporation own the sugar in the United States which was frozen on December 13, 1941, by General Preference Order No. M-55?

Mr. GOODLOE. No; at that time or shortly after that order was issued we asked the War Production Board to stand ready to buy as large quantity of the frozen commercial stock as they might from time to time recommend that we buy. We did in fact buy 40,000

tons of raws, and then recently 45,000 tons of refined, and the raws were immediately resold and distributed in accordance with W. P. B. recommendations, and the distribution of the 45,000 tons of refined is now in process.

The CHAIRMAN. How much frozen sugar has been taken by the Defense Supplies Corporation and how much of this moved into distressed areas?

Mr. GOODLOE. The total is 95,000 tons that we have bought. Forty thousand has been distributed and 45,000 is now in process.

The CHAIRMAN. Does the Defense Supplies Corporation have any representative on the Sugar Board of the War Production Board?

Mr. GOODLOE. I assume by Sugar Board you mean the interdepartmental committee that was recently set up by the War Production Board?

The CHAIRMAN. Yes.

Mr. GOODLOE. Yes, we do have a representative.

The CHAIRMAN. You do have a representative?

Do you have the Cuban contract with you?

Mr. GOODLOE. Yes, sir.

The CHAIRMAN. Would you object to inserting it in the record?

Mr. GOODLOE. Not at all. Attached to it also is a copy of the refiners' agreement.

The CHAIRMAN. A copy of the refiners' agreement. Let me see it. [Document handed to the chairman.]

The CHAIRMAN. Without objection we will insert the two in the record, the Cuban agreement and the refiners' agreement.

(The matter referred to is as follows:)

AGREEMENT

THIS AGREEMENT entered into as of January 28, 1942, in Washington, D. C., between the DEFENSE SUPPLIES CORPORATION, a corporation organized under Section 5 (d) of the RECONSTRUCTION FINANCE CORPORATION ACT, as amended, hereinafter called the Corporation, and the refiners of cane sugar in continental United States, signatories hereof, acting severally, hereinafter called collectively and singly the Refiners and Refiner, respectively,

WITNESSETH:

WHEREAS the Corporation was created, and in making and performing this Agreement is acting, as an agency of the United States Government with power to buy and dispose of strategic and critical materials, and to that end has the authority to enter into contracts to buy foreign raw sugar, and to assign its rights under such contracts, subject to such terms and conditions as it may deem advisable; and

WHEREAS the Corporation has under date of January 28, 1942, pursuant to such power and authority, entered into a contract, hereinafter called the Cuban Crop Contract, with the Instituto Cubano de Estabilizacion del Azucar (Cuban Sugar Stabilization Institute), hereinafter called the Institute, a copy of which contract is attached hereto and marked Exhibit A, in which contract the Institute has agreed to sell to the Corporation, and the Corporation has agreed to buy from the Institute, the entire 1942 Cuban sugar crop in the form of raw sugar, invert molasses and blackstrap, subject to the exceptions provided for in Article First of such contract; and

WHEREAS the Corporation desires to make available to the Refiners and the Refiners desire to have made available to them, for refining and subsequent distribution in the form of refined sugar and other cane sugar products, certain raw sugar which the corporation has so agreed to buy from the Institute, all on the terms and conditions hereinafter set forth;

NOW, THEREFORE, IN CONSIDERATION OF the premises and the covenants hereinafter set forth, the parties hereto agree as follows:

ALLOCATION'S AND ASSIGNMENTS

(1) The Corporation agrees to assign to each Refiner from time to time, upon such Refiner's application therefor approved in advance by the War Production Board, a specified quantity of the aggregate amount of raw sugar agreed to be made available for assignment to the Refiners hereunder. Whenever the Corporation so assigns a quantity of raw sugar to a Refiner hereunder, such assignment will constitute an assignment by the Corporation to such Refiner of the Corporation's rights, with respect to such quantity of raw sugar, as set forth in the Cuban Crop Contract, subject to the provisions of this Agreement. Each Refiner to which any such assignment may be made undertakes that it will fulfill the Corporation's obligations with respect to such raw sugar so assigned, as set forth in the Cuban Crop Contract, subject to the provisions of this Agreement, and any such assignment to a Refiner will be conditioned on the Refiner complying with such undertaking on its part. The approval by the War Production Board of any such application by a Refiner for an assignment of raw sugar hereunder will be understood to constitute certification that the raw sugar so applied for has been allocated to such Refiner by the War Production Board. The aggregate amount of raw sugar which the Corporation agrees to make available for assignment to the Refiners hereunder will include all raw sugar which in the Cuban Crop Contract the Corporation has agreed to buy from the Institute and the Institute has agreed to sell to the Corporation, excluding, however, any raw sugar to be shipped from Cuba to any foreign country other than the United States at the direction of the Corporation, as well as any raw sugar which may be converted at the direction of the Corporation into invert molasses. The fact that this Agreement is submitted to a Refiner for signature, or signed by a Refiner, shall not be considered as indicating that any assignment of raw sugar will be made to such Refiner hereunder, it being understood that the Corporation will not in any event assign raw sugar hereunder to a Refiner to which such raw sugar has not been allocated by the War Production Board. It is understood that any function provided for in this Agreement to be performed by the War Production Board may instead be performed by any other United States Governmental agency which may at the time be delegated to allocate raw sugar supplies among the Refiners.

ARRANGING TRANSPORTATION

(2) Whenever any Refiner's application to have raw sugar assigned to it hereunder has been approved by the War Production Board and accepted by the Corporation, the Corporation will so advise the Maritime Commission, and the Refiner will thereupon be considered to have requested the Maritime Commission to make available the vessels necessary to transport such raw sugar from Cuba. It is contemplated that the Maritime Commission will, to the extent that vessels are from time to time available for this purpose, arrange to have charter parties for such transportation offered by the owners or operators of such vessels, directly or through ship brokers, to such Refiner; that, whenever any disagreement may arise as to whether a vessel or vessels in particular positions will be so made available to a certain Refiner, the Maritime Commission may refer the question to the War Production Board for decision; and that, in performing the above-mentioned functions, the Maritime Commission may invite the cooperation of ship brokers, owners, and operators, and of Refiners' employees experienced in raw sugar shipping matters, to act as an advisory shipping committee in New York under the chairmanship of an employee of the Maritime Commission. It is contemplated that such charter parties will be in the form of the customary West Indies sugar charter party now in effect, as revised from time to time by order of the Maritime Commission, and that they will provide for transportation from Cuban loading port or ports to wharves to be designated by the Refiners at their respective refineries, or in other United States ports through which they customarily receive raw sugar shipments, at the freight rates in effect at the time, with customary provision that the Refiner will have the option to discharge (or appoint stevedores to discharge the cargo at the expense of the vessel). The charter party will in each instance be signed by the Refiner as charterer, and such Refiner will make all payments for freight and other

charges which as charterer such Refiner is obligated to make under the terms of the charter party. The Corporation will make available, on request, to the Maritime Commission, the advisory shipping committee and the Refiners concerned, the information it receives from the Institute pursuant to Article Fifth and subparagraphs (o) and (p) of Article Sixth of the Cuban Crop Contract.

MARINE AND WAR RISK INSURANCE

(3) Each Refiner will, with respect to each shipment of raw sugar to be made to it hereunder, perform the obligations of the Corporation, set forth in subparagraph (w) of Article Sixth of the Cuban Crop Contract, to provide marine and war-risk insurance, and such insurance will be for the account of such Refiner.

LOADING; SHIPPING REPORTS

(4) The Corporation will advise the Institute promptly from time to time of all assignments of raw sugar made to the Refiners hereunder. Whenever an assignment of raw sugar is made to a Refiner hereunder and a vessel or vessels are made available to such Refiner to transport such raw sugar, such Refiner will communicate directly with the Institute and arrange with it to have the raw sugar provided for in such assignment placed alongside such vessel or vessels on the arrival thereof at loading port or ports. Whenever any Refiner notifies the Corporation that such Refiner is experiencing difficulty in making such arrangements with respect to any shipment, the Corporation will cooperate fully to effect such arrangements pursuant to the provisions of the Cuban Crop Contract. The Corporation will use its good offices with the Department of State, the Maritime Commission, and other Governmental agencies to assure that each Refiner will be advised from time to time, as fully as conditions may permit, regarding the loading, clearance, and movement of vessels chartered by such Refiner to transport raw sugar assigned it hereunder.

MARINE FREIGHT ADJUSTMENTS

(5) In order to equalize as far as practicable certain inequalities in marine freight rates, and in loading-port expenses arising out of the Cuban Crop Contract and war conditions, without necessitating for such purposes any variations in sugar ceiling prices, there will be established by contributions, as provided for in the following subparagraph (a), a marine-freight adjustment fund (hereinafter called the Fund) in the hands of the Corporation for application as indicated below.

(a) As long as, pursuant to orders of the Maritime Commission, the marine freight rate for raw sugar from Cuba to ports south of Hatteras is two cents per 100 pounds less than that from north-side Cuban ports to ports north of Hatteras but not north of New York, based on the comparable rates for one-port loading and two-port loading, and the ceiling price for offshore raw sugar at ports south of Hatteras is one cent per 100 pounds less than the ceiling price for offshore raw sugar at ports north of Hatteras, each Refiner to which a shipment of Cuban raw sugar is made hereunder to a port south of Hatteras will, in addition to paying to the vessel the marine freight applicable therefor, be obligated to pay to the Corporation by December 31, 1942, for the account of the Fund, one cent for each 100 pounds of raw sugar in such shipment, but there may be offset against such obligation the amount for each 100 pounds of raw sugar by which the marine freight at the rates prescribed by the Maritime Commission for each shipment of raw sugar which such Refiner receives from Puerto Rico during the year 1942, at a port south of Hatteras, exceeds the marine freight payable under the rate in effect at the same time, as prescribed by the Maritime Commission, for shipments of raw sugar from Puerto Rico to New York.

(b) There shall be payable by the Corporation to each Refiner out of the Fund, as soon as practicable after December 31, 1942:

(i) The amount by which the marine freight payable by such Refiner for any shipment made hereunder from a south-side Cuban port or ports to a port north of Hatteras exceeds the marine freight which would have been payable therefor if the vessel had loaded at a north-side Cuban port or ports, based on the comparable rates for one-port loading and two-port loading as prescribed by the Maritime Commission.

(ii) The amount by which the marine freight at the rates prescribed by the Maritime Commission for each shipment of raw sugar which such

Refiner receives from Puerto Rico during the year 1942, at a port south of New York, exceeds the marine freight payable under the rate in effect at the same time, as prescribed by the Maritime Commission, for shipments of raw sugar from Puerto Rico to New York, but such amount will not be payable to the extent that such freight differential may have been offset for such Refiner under subparagraph (a) above.

(iii) The amount by which the marine freight payable for any shipment hereunder to such Refiner exceeds the marine freight which would have been payable therefor, by reason of the vessel having been required to load at two Cuban ports instead of at only one port, as determined from the rates prescribed by the Maritime Commission in effect at the time.

(iv) Any amounts which such Refiner is required to pay to the Institute, the shipper or others pursuant to subparagraph (p) of Article Sixth of the Cuban Crop Contract with respect to expenses occasioned by failure of a vessel to arrive at the Cuban loading port not more than five days after the announced date of arrival or its failure to arrive at all.

(c) If the Fund shall be insufficient to pay all proper items arising under subparagraph (b) above, all such items shall be reduced proportionately so that the total thereof will equal the amount of the Fund.

(d) Any final surplus in the Fund, after making the payments therefrom provided for in this paragraph (5), will be distributed to the Refiners having refineries at ports south of Hatteras in proportion to their respective contributions (net after deducting any offsets) to the Fund pursuant to subparagraph (a) above.

It is understood that, if the present relationship between marine freight rates and ceiling price differentials on Cuban raw sugar referred to in subparagraph (a) above should be changed, the Refiners will consult with the Corporation to discuss equitable modifications of this paragraph (5) in accordance with the purposes thereof. References in this paragraph (5) to ports north or south of Hatteras, or south of New York, are intended to refer to United States Atlantic and Gulf of Mexico ports so situated.

PAYMENT; SHIPPERS' REPRESENTATIVES

(6) Payments will be made by each Refiner, under drafts and otherwise, with respect to each shipment of raw sugar made to such Refiner hereunder, in the full amount and in the manner required by subparagraphs (s) and (t) of Article Sixth of the Cuban Crop Contract. In all sampling, testing and weighing with respect to any shipment hereunder, the Refiner is authorized to deal with the shipper's representatives as acting for the Institute as well as for the shipper.

UNSHIPPED SUGAR

(7) If a Refiner notifies the Corporation in writing by December 1, 1942, that such Refiner desires to be relieved from all obligation to accept and make payments for or in connection with any raw sugar assigned or to be assigned to such Refiner hereunder to the extent that such raw sugar is not shipped from Cuba before December 16, 1942, such Refiner will thereupon be relieved from such obligation. If a Refiner does not notify the Corporation by December 1, 1942, that such Refiner elects to be so relieved from such obligation, such Refiner agrees to fulfill all of the obligations undertaken by the Corporation in subparagraph (q) of Article Sixth of the Cuban Crop Contract with respect to any raw sugar assigned or to be assigned to such Refiner hereunder which is not shipped from Cuba before December 16, 1942, and in this event the identity certificates, insurance certificates and warehouse receipts provided for in that subparagraph are to be turned over to the Refiner as owner of such raw sugar on such Refiner making the pro forma payments therefor provided for in such subparagraph. Except for raw sugar with respect to which a Refiner so agrees to fulfill the obligations undertaken by the Corporation, any raw sugar otherwise deliverable hereunder which may not have been shipped from Cuba before December 16, 1942, shall be excluded from that which may have been assigned or agreed to be assigned hereunder. The Refiners may consult the Corporation about making available to them, on a fair pro rata basis, when shipment thereof from Cuba becomes possible, any raw sugar, of that agreed to be made available for assignment to the Refiners hereunder, not accepted

by Refiners hereunder because of not having been shipped from Cuba before December 16, 1942.

MARKET DECLINES

(8) If at any time during the year 1942 the market price of raw sugar from any source, basis 96 degrees, delivered New York, duty paid or duty free, currently arriving at United States ports, or due to arrive within thirty days (as determined from a bona fide sale or sales, or in the absence of such sales, from a bona fide offering or offerings, aggregating not less than 10,000 long tons on any business day) is less by at least one-tenth of one cent per pound than the price payable for Cuban raw sugar currently arriving, or if such raw sugar were currently arriving, at United States ports hereunder, basis 96 degrees, delivered New York, duty paid, whether or not any United States raw sugar ceiling price in effect at the time reflects such reduction in market price, each Refiner will be entitled at its option:

(a) On prompt notification to this effect to the Corporation, to decline to accept any and all further shipments of raw sugar assigned or agreed to be assigned hereunder to such Refiner, except such as shall have cleared from Cuba before the time when such notification is given to the Corporation; and

(b) On prompt notification to this effect to the Corporation, to require the Corporation to buy from such Refiner up to 80% in weight of the aggregate of (a) all Cuban raw sugar previously received by such Refiner hereunder and still on hand in the form of raw sugar, plus (b) all raw sugar shipped and cleared from Cuba hereunder but not yet on hand at such Refiner's refinery or refineries. Since refining operations generally require the commingling of raw sugar received from all sources, such amount of Cuban raw sugar still on hand in such Refiner's inventory in the form of raw sugar will be computed for this purpose as constituting that proportion of all raw sugar, from all sources, which such Refiner then has on hand in the form of raw sugar which the total of such Refiner's receipts of raw sugar from Cuba during the year 1942 up to that time bears to the total of such Refiner's receipts of raw sugar from all sources during the same period. Such purchase by the Corporation will be at the average price per pound, basis 96 degrees, duty paid, delivered at refinery wharf, paid or payable by such Refiner, for the aggregate of (a) all of such raw sugar shipped and cleared from Cuba but not yet on hand at such Refiner's refinery or refineries, plus (b) the Cuban raw sugar most recently received by such Refiner hereunder equal in amount to the quantity (determined as indicated above) of raw sugar received by such Refiner hereunder and still on hand in the form of raw sugar, regardless of the actual time of receipt of, or the actual price paid for, such raw sugar physically on hand at the time. A Refiner cannot exercise its right under this subparagraph (b) without simultaneously exercising its right under the preceding subparagraph (a), but a Refiner may exercise its right under such subparagraph (a) without exercising its right under this subparagraph (b).

CEILING PRICE INCREASES

(9) If at any time or times during the year 1942 the United States raw sugar ceiling price, basis 96 degrees, delivered New York, duty paid or duty free, is increased by at least one-tenth of one cent per pound over such ceiling price in effect immediately prior thereto, the Corporation will be entitled at its option, on prompt notification to this effect to each Refiner, to require such Refiner to sell to the Corporation up to 80% in weight of the aggregate of (a) all Cuban raw sugar previously received by such Refiner hereunder and still on hand in the form of raw sugar, plus (b) all Cuban raw sugar then en route to such Refiner hereunder which arrived at quarantine at destination port prior to the date when such higher ceiling price shall have become effective. Such amount of Cuban raw sugar still on hand in such Refiner's inventory in the form of raw sugar will be computed for this purpose as constituting that proportion of all raw sugar, from all sources, which such Refiner then has on hand in the form of raw sugar which the total of such Refiner's receipts of raw sugar from Cuba during the year 1942 up to that time bears to the total of such Refiner's receipts of raw sugar from all sources during the same period. Such sale to the Corporation will be at the average price per pound, basis 96 degrees, duty paid, delivered at refinery wharf, paid or payable by the Refiner, for the aggregate of (a) all of such Cuban raw sugar then en route to such Refiner hereunder which arrived at

quarantine at destination port prior to the date when such higher ceiling price shall have become effective, plus (b) the Cuban raw sugar most recently received by such Refiner hereunder equal in amount to the quantity (determined as indicated above) of raw sugar received by such Refiner hereunder and still on hand in the form of raw sugar, regardless of the actual time of receipt of, or the actual price paid for, such raw sugar physically on hand at the time. The Corporation reserves the option provided for in this paragraph (9), not with a view to realizing an eventual net profit, but so that it will be in position, in its discretion, to prevent inventory profits in an amount which the Corporation may deem unreasonable accruing to the Refiners with respect to raw sugar received by them hereunder, as well as to defray or anticipate any expenditures required to be made by the Corporation pursuant to the provisions of paragraphs (8), (9), or (11) of this Agreement, and any other expenses in connection with this Agreement or the Cuban Crop Contract.

DELIVERY UNDER REFINERS' SALES TO CORPORATION

(10) Whenever raw sugar is sold by a Refiner to the Corporation pursuant to paragraphs (8) or (9) hereof, the Corporation will arrange to take delivery thereof promptly from such Refiner. If the raw sugar so sold is afloat, the Corporation will designate some suitable wharf to which the vessel can and will go to unload. The raw sugar will be at the risk and expense of the Corporation as and when delivered on such wharf. If the raw sugar so sold is not afloat and is in or around a refinery or warehouse, the Corporation will provide vessels or lighters promptly to remove such raw sugar, and the Refiner will arrange to deliver such raw sugar in bags to the stringpiece of the adjoining wharf, after which such raw sugar will be at the risk and expense of the Corporation. In the case of raw sugar afloat so sold to the Corporation, the weighing, sampling, and testing thereof will be conducted by the representatives of the Refiner and the shipper, in the customary manner, and the price per pound, basis 96 degrees, duty paid, payable for such raw sugar by the Corporation to such Refiner, will be the average price per pound, 96 degrees, duty paid, delivered at refinery wharf, provided for in paragraph (8) or (9) of this Agreement, on the basis of the final weights, and with customary allowances for polarization; and the Corporation will, in addition to so making payment for such raw sugar, also pay to such Refiner the cost of the transportation of such raw sugar from Cuba to the wharf where the sugar is actually unloaded to the extent if any that such cost exceeds what would have been the cost of transportation to such Refiner's wharf, plus the cost to such Refiner of the marine and war-risk insurance on such shipment. In the case of raw sugar so sold which is not afloat and which is in or around a refinery or warehouse, the weighing, sampling, and testing thereof will be conducted by the representatives of such Refiner and the Corporation, in the customary manner, and the price per pound, basis 96 degrees, duty paid or duty free, so delivered to stringpiece of wharf, payable for such raw sugar by the Corporation to such Refiner, will be the average price per pound, basis 96 degrees, duty paid, delivered at refinery wharf, provided for in paragraph (8) or (9) of this Agreement, on the basis of the final weights, and with customary allowances for polarization, and also properly adjusted so as to reflect in such delivered price the actual cost of the transportation from Cuba to refinery wharf of the raw sugar most recently received by such Refiner hereunder equal in amount to the inventory quantity so sold; and the Corporation will, in addition to so making payment for such raw sugar, also pay to such Refiner the cost to it of the marine and war-risk insurance on such raw sugar, similarly based on the cost of such insurance on an equal quantity of raw sugar most recently received hereunder, plus, in case such raw sugar is being sold and delivered to the Corporation pursuant to the provisions of paragraph (9) of this Agreement, all actual expense (including labor costs for bagging the raw sugar if it is not in bags at the time) incurred by the Refiner in so delivering such raw sugar to stringpiece of wharf from the place where it is stored at the time, to the extent if any that this expense exceeds the expense which such Refiner would normally have incurred in delivering such raw sugar from such storage place to the point where such sugar would be dumped for melting in the refinery. In the case of a refinery which customarily receives its raw sugar supplies by rail, raw sugar so sold to the Corporation hereunder which is on hand in or around such refinery may instead be delivered there f. o. b. railroad cars or trucks arranged for by the Corporation, and the references in

paragraphs (8), (9), and (10) hereof to refinery wharf, with respect to incoming shipments of raw sugar, shall be deemed to refer instead to the railroad siding at such refinery. The Corporation will make prompt payment to each Refiner of all amounts payable to it for and in connection with raw sugar so sold to the Corporation.

ALTERNATIVE METHOD OF SETTLEMENT

(11) In lieu of a sale and delivery of raw sugar by any Refiner to the Corporation, pursuant to the provisions of paragraphs (8) or (9) and paragraph (10) of this Agreement, the Corporation and such Refiner may, by mutual agreement, effect a settlement based on the difference between the cost of such raw sugar to the Refiner and the market or ceiling price for a corresponding quantity of raw sugar as of a date on which they may agree for this purpose.

USE OF RAW SUGAR

(12) All raw sugar received hereunder by a Refiner shall be used (subject to substitution privileges provided for in drawback regulations) for making refined sugar and other cane sugar products for sale and distribution to buyers in continental United States (and elsewhere to the extent permitted by licenses issued by the appropriate United States Governmental agency), and to the armed forces of the United States serving outside of continental United States.

LAPSED ASSIGNMENTS

(13) If, after the War Production Board shall have allocated Cuban raw sugar to a Refiner for a particular period, such Refiner fails to apply, within fifteen days from the date on which notice of such allocation is given, for an assignment hereunder of the full amount of Cuban raw sugar so allocated to such Refiner for such period, the amount of such raw sugar not so applied for will become available to be assigned to other Refiners hereunder pursuant to allocations made and assignments approved by the War Production Board. If, after raw sugar has been assigned to a Refiner hereunder, such Refiner does not with reasonable promptness enter into available charter parties for vessels in reasonably suitable positions, to transport such raw sugar from Cuba to the United States port or ports where such Refiner has a refinery or refineries or customarily receives raw sugar, or, having entered into such charter parties, does not cooperate fully with the Institute, the shipper and the Corporation to have such raw sugar loaded and shipped to the United States with reasonable promptness, such assignment with respect to the raw sugar affected may be revoked by the Corporation at any time upon notice to such Refiner, in which event such raw sugar will become available to be assigned to other Refiners hereunder as provided above. The Corporation, in exercising its rights under this and other provisions of this Agreement, will give due consideration to not requiring shipments to any Refiner hereunder to be expedited to such an extent as to necessitate the storage in its refinery or refineries of unreasonably large stocks of raw or refined sugar, taking into account raw sugar received and receivable from other sources, as well as from Cuba, and refined sugar made therefrom.

FORCE MAJEURE

(14) Should any case of force majeure prevent a Refiner from receiving raw sugar assigned or to be assigned to such Refiner hereunder, such Refiner will notify the Corporation promptly and keep the Corporation fully informed of the circumstances. Such Refiner will, in this event, be released from any liability by reason of nonacceptance of such raw sugar as long as such nonacceptance is prevented by force majeure, but will use due diligence to overcome the conditions constituting the force majeure. The provisions of this paragraph (14) shall not be considered as releasing a Refiner from obligation to accept raw sugar shipped to such Refiner hereunder from Cuba prior to such force majeure becoming operative.

AMENDING CUBAN CROP CONTRACT

(15) The Corporation reserves the right to modify or amend the Cuban Crop Contract hereto attached, but no such modification or amendment shall make more onerous the obligations of a Refiner, or operate to such Refiner's disadvantage with respect to the terms and obligations agreed to by the Institute, as to any raw sugar the subject of an assignment made or applied for hereunder

prior to notice given by the Corporation to such Refiner of such modification or amendment. The Corporation will advise each Refiner promptly of any modification or amendment of the Cuban Crop Contract with respect to raw sugar, and such modification or amendment will govern any assignment of raw sugar hereunder made on any application filed after notice to a Refiner of such modification or amendment.

REFINERS' OBLIGATIONS NOT JOINT

(16) The obligations which the Refiners undertake hereunder are several and not joint. Each Refiner undertakes to carry out the provisions of this Agreement with respect to raw sugar herein agreed to be assigned and/or which may be assigned to such Refiner hereunder, but undertakes no obligation with respect to raw sugar herein agreed to be assigned, or which may be assigned, to other Refiners.

REFINERS' ADVISORY COMMITTEE

(17) The Corporation has requested the Refiners to appoint a committee, from among the principals acting for the respective Refiners, to advise the Corporation, whenever asked to do so, regarding matters arising in the performance of this Agreement. The following men have been designated, with the approval of the Corporation, to act as the members of this Committee to be known as the Executive Committee of the Cane Sugar Refiners' War Committee:

ELLSWORTH BUNKER, *Chairman*, President of The National Sugar Refining Company

J. F. ABBOTT, President of The American Sugar Refining Company

L. R. CAMPIGLIA, President of California and Hawaiian Sugar Refining Corporation, Ltd.

CHARLES GODCHAUX, President of Godchaux Sugars, Inc.

W. C. KEMPER, Treasurer of Sterling Sugars, Inc.

THOMAS OXNARD, Vice-President and Treasurer of Savannah Sugar Refining Corporation

CHARLES W. TAUSSIG, Chairman of the Board of Suerest Corporation

H. E. WORCESTER, Vice-President of Revere Sugar Refinery.

Each member of such Committee may designate from time to time an alternate to act in his stead. The members of such Committee and their alternates will serve without compensation, and it is agreed that they will not be held responsible, in damages or otherwise, by any party or parties to this Agreement, for any action or failure to act on their part in connection with carrying out in good faith their activities as members of such Committee.

NONPARTICIPATION

(18) If any refiner or refiners of cane sugar in continental United States fail to execute this Agreement and to return this Agreement duly executed to the Corporation on or before February 9, 1942, such refiner or refiners shall not be entitled to receive any of the raw sugar agreed to be assigned to the Refiners hereunder, and the Corporation will make available to be assigned to the respective Refiners, pursuant to allocations by the War Production Board, such quantities of raw sugar as would have been available to be assigned to such non-participating refiner or refiners, had they so executed and returned this Agreement.

ARBITRATION

(19) In the event of any disagreement (which is not settled promptly by negotiation), hereunder or under the Cuban Crop Contract, between the Institute and/or the shipper, on the one hand, and any Refiner on the other hand, the Refiner consents to be bound by the results of an arbitration carried out pursuant to Article Twelfth of the Cuban Crop Contract, and to bear the Corporation's share of the expense of such arbitration. The Corporation undertakes, whenever possible, to select as its arbitrator in each such case a person approved by the Refiner or Refiners involved. Any disagreement arising under this Agreement, not settled promptly by negotiation, between the Corporation and any Refiner, shall be submitted to a board of three arbitrators. If the Corporation and the Refiner fail to designate the three arbitrators by mutual agreement within fifteen days after the date that either of them shall have requested of the other that the disagreement be submitted to arbitration, then each shall immediately appoint one arbitrator and these two arbitrators shall agree on the third arbitrator.

The decision of any two of such arbitrators shall be final and conclusive. The arbitrators shall serve without compensation and the parties to such arbitration shall bear the expense thereof equally. Every such arbitration shall take place in Washington, D. C., or in such other place or places as a majority of the arbitrators may designate.

RIGHTS ASSIGNED AND OBLIGATIONS UNDERTAKEN

(20) Whenever any raw sugar is assigned to a Refiner hereunder, such Refiner will, with respect to the raw sugar covered by such assignment, be deemed entitled to the rights of the Corporation and to have accepted and undertaken to perform the obligations of the Corporation, set forth in Articles Sixth, Seventh, Eighth, Thirteenth, Fourteenth, and Fifteenth of the Cuban Crop Contract (except the rights and obligations set forth in subparagraphs (d), (e), (f), (g), (u), and (v) of such Article Sixth), subject, however, to the provisions of this Agreement. The Corporation undertakes, on its own account, the obligations expressly undertaken by it in this Agreement with respect to raw sugar assigned or agreed to be assigned to each Refiner hereunder, and further undertakes to use its best efforts to assure compliance by the Institute, and by the Cuban producers and shippers, with the terms and conditions of the Cuban Crop Contract, insofar as they relate to raw sugar assigned or to be assigned to the Refiners hereunder. The obligations to be accepted by each Refiner, with respect to raw sugar assigned or agreed to be assigned to such Refiner hereunder, are those obligations which this Agreement provides shall be undertaken by such Refiner. The Corporation agrees with each Refiner to comply with the Corporation's obligations under the Cuban Crop Contract, to the extent that such obligations are not herein provided to be undertaken and performed by such Refiner.

NOTICES

(21) Any notice to be given to any party hereto may be given by telegram, cable, or radiogram, or by mail, and must be received by such party in order to constitute notice. All notices to the Corporation shall be addressed to it at Washington, D. C. All notices to any other party hereto shall be addressed to such party at its address appearing under its signature on this Agreement.

EXECUTION

(22) This Agreement may be executed by the several Refiners in any number of counterparts of like tenor, all of which, when executed by the Corporation, shall constitute a single instrument.

IN WITNESS WHEREOF, the parties hereto, being duly authorized to enter into this Agreement, have executed it by their duly authorized representatives as of the day and year first above written.

DEFENSE SUPPLIES CORPORATION,

By _____
Executive Vice-President

By _____
President

(Address: _____)

EXHIBIT A

AGREEMENT

The purchase contract of the 1942 Cuban sugar crop

AGREEMENT entered into this 28th day of January, 1942 in the City of Havana, Cuba, by and between Defense Supplies Corporation, a corporation domiciled in Washington, D. C., and organized pursuant to the provisions of Section 5 (d) of the Reconstruction Finance Corporation Act, as amended (hereinafter called the "Corporation"), party of the first part; and the Instituto Cubano de Estabilizacion del Azucar (Cuban Sugar Stabilization Institute), a juridical entity of Cuban nationality constituted and organized in accordance with the

Law of May 14, 1931, in connection with the Law of November 15, 1930, and the Decree Law No. 522 of January 18, 1936, and reorganized in accordance with Law No. 20 of March 21, 1941 (hereinafter called the "Institute"), party of the second part;

WITNESSETH:

WHEREAS, the Corporation was created, and in making and performing this contract is acting, as an agency of the Government of the United States with power to purchase and sell strategic and critical materials and to that end has the authority to purchase and sell domestic and foreign raw sugar and molasses in such quantities, at such prices and upon such terms and conditions as it may deem advisable; and

WHEREAS, the Institute has the power and authority to regulate through appropriate export licenses the export of Cuban sugar and molasses for delivery to any person, entity or country, as well as to buy and acquire molasses and sugars produced in Cuba; and has been specifically authorized to sell the entire 1942 Cuban sugar crop, whether in the form of raw sugar or invert molasses, as well as blackstrap molasses, and to enter into this contract, in accordance with the provisions of Presidential Decree No. 178 of January 28, 1942; and

WHEREAS the Corporation, at the request of the Government of the United States, and the Institute, in accordance with the aforesaid Decree, have reached an agreement with respect to the purchase and sale of the sugar which can be produced in Cuba in the 1942 crop, whether in the form of raw sugar or of invert molasses, as well as blackstrap molasses; and

WHEREAS the Corporation has requested that approximately one-third of the Cuban 1942 sugar crop be sold to it in the form of invert molasses instead of in the form of raw sugar, and the Institute has agreed to this as an act of cooperation by Cuba with the United States for the common defense;

NOW, THEREFORE, IN CONSIDERATION OF the premises and the mutual covenants and agreements herein set forth, the parties hereto agree as follows:

FIRST

1. The Institute hereby sells to the Corporation and the Corporation hereby purchases the entire 1942 Cuban sugar crop, in the form of raw sugar, invert molasses, and blackstrap, as hereinafter provided, subject to the following exceptions:

(a) Such amount of sugar, up to the maximum amount of 200,000 Spanish long tons, raw sugar value, as may be used for local consumption in Cuba in 1942;

(b) An amount of blackstrap molasses equivalent to the amount derived as a byproduct from the manufacture of the 200,000 tons of local consumption sugar, and which shall not exceed 9,000,000 gallons;

(c) Up to 65,000 Spanish long tons, which is the estimated amount of raw sugar which may be required by Cuban refiners in order to maintain their export markets to countries outside of the United States of America;

(d) The amounts of raw sugar needed to provide the direct consumption sugar to be exported to the United States in 1942 within the quota granted Cuba under the United States Sugar Act of 1937, as amended, amounting to the equivalent of 375,000 English short tons, raw value;

(e) The amount of sugar needed for production of syrups which are to be exported to the United States in 1942 within the quota granted to Cuba under the United States Sugar Act of 1937, as amended, amounting to 7,970,558 gallons;

(f) Up to 34,000,000 gallons of invert molasses to meet the requirements of Cuban distillers for manufacture of industrial alcohol destined for the war needs of the United States and other allied countries.

2. The sugars and molasses not used for the purposes stated in subdivisions (a) to (f) of the preceding paragraph 1 shall be included in the sale to the Corporation. The Institute shall have the following periods of time within which to determine whether the said products shall be or shall not be included in this sale to the Corporation, in whole or in part: Up to June 30, 1942, for the sugars and molasses mentioned in subdivisions (c) and (f), respectively, and up to July 31, 1942, for the products specified in subdivisions (b), (d), and (e).

SECOND

The Institute will take all necessary and appropriate measures to cause to be produced as the 1942 Cuban sugar crop the maximum amount of sugar, whether in the form of raw sugar or invert molasses, possible from the now existing cane.

THIRD

The entire 1942 crop sold hereunder, whether in the form of raw sugar or molasses, will be made available by the Institute for delivery upon the direction of the Corporation, for shipment by the Corporation to the United States, the United Kingdom, Canada, or, when the Institute and the Corporation so agree, to any other country or countries upon the terms and conditions hereinafter stated.

FOURTH

The Institute agrees that the 1942 sugar crops will be so regulated that approximately one-third of the crop shall be produced and delivered in the form of invert molasses, unless otherwise agreed upon between the Corporation and the Institute. The invert molasses and blackstrap molasses will be produced and will be made available to the Corporation for shipment, as provided in Article Tenth of this contract. The remainder of the crop sold hereunder will be produced and be delivered for shipment as raw sugar, in accordance with Article Sixth of this contract.

FIFTH

The Institute as soon as the production quota decree is published in Cuba, will furnish the Corporation with full information as to name of the mill or mills of each of the producers, and their production quotas; and by March 5, 1942, an estimate of the total production of each said mill during the 1942 crop season, and from time to time such further information as the Corporation may reasonably request with respect to the production of sugar and molasses. All estimates of production shall include details as to the amounts of sugar, blackstrap, and invert molasses said mills will produce, the approximate dates and ports through which such amounts will be available for shipment, and the extent of the storage facilities at each mill.

SIXTH

The Institute hereby sells and agrees to deliver to the Corporation and the Corporation hereby purchases and agrees to accept delivery of the raw sugar, on the following terms and conditions:

Price.—(a) The basic minimum price is 2.65 cents, United States currency, per English pound, basis 90 degrees polarization, f. o. b. north side or south side Cuban port. The expression "f. o. b." means free alongside vessel within reach of ship's tackle, in accordance with the usual practice in the Cuban sugar trade.

(b) If on or before date of arrival of a shipment at quarantine at port of destination, the United States raw sugar ceiling price shall have been increased above 3.74 cents per pound duty paid c. & f. basis New York, then the price payable for said shipment will be increased to the extent that such increase or increases in ceiling price shall be in effect at the date of arrival, except to the extent that any such increase in ceiling price has been offset by an increase or increases in freight. Increases in freight shall operate to offset increases in ceiling price only as follows: An increase, or increases, in the basic rate of freight from one port on the north side of Cuba to New York, above 0.34 cents per pound, shall operate to the extent thereof to offset the normal effect, as above described, on the f. o. b. Cuban port price of an increase in the New York duty paid cost and freight ceiling, provided that such freight increases have been made effective prior to, or on the date of, such ceiling price increase, or not later than the last full day of the calendar half-month in which such ceiling price increase became effective, it being understood, however, that when a ceiling price increase has occurred, only any excess of such freight increases over such ceiling price increase shall be included in the freight increases which will operate as an offset against any subsequent ceiling price increase. It is also understood that, except as above provided, no increase of freight shall operate to reduce the f. o. b. Cuban port price, which otherwise can only be reduced as a consequence of a

reduction in ceiling price, New York basis, and then not below 2.65 cents per pound f. o. b. Decreases in freight, north side Cuba to New York basis, shall operate to increase the Cuban f. o. b. price, except to the extent required to offset any previous freight increases not absorbed by ceiling price increases.

(c) In the case of shipments to countries other than the United States and Canada, the seventh day after date of sailing from Cuban port shall be substituted for the date of arrival at port of destination, for the purpose of price determination, and for the purpose of liquidating the sugars in such shipment the port of New York shall be considered as the port of destination.

Shipments.—(d) Shipments are to begin as soon as possible after grading commences and shall be in approximately equal monthly shipments from February to November 1942, both inclusive. The Corporation reserves the right to order larger quantities shipped in any month if tonnage is obtainable and if sugar is produced and available.

(e) The Corporation will notify the Institute from time to time of proposed allocations of sugar for shipment as between the United States and other countries.

(f) Sugar shall be shipped in sound jute bags containing approximately 325 Spanish pounds each except in those cases where shipments have customarily been made in bulk. In case of bulk shipment, the shipper and the receiver of the sugar will agree upon the allowance for bags not received.

(g) In all cases where shipment is made in secondhand bags there shall be deducted seven cents (7¢) for each secondhand bag.

(h) If sugar is shipped in new bags to a United States refiner under this contract, the Institute will have the right to notify such refiner at time of shipment of the sugar of the desire to purchase from such refiner such number of empty bags as may result and be available from such shipment in condition suitable for use for bagging raw sugar. In such case the refiner will notify the Institute, in due course, of the number of such bags, if any, which may be so available and the Institute or its designee will then be entitled to arrange with the refiner within thirty (30) days of the receipt of such notice for the purchase and delivery of such number of bags on customary terms at a price to be agreed upon not in excess of any ceiling price in the United States which may be in effect for such bags. Any dispute which may arise under this paragraph will be referred to the Corporation and the Institute for settlement.

(i) Settlement is to be made by mark on net landed weights and outturn polarizations taken at port of discharge in the United States, Canada, or the United Kingdom with separate invoice for each mark. Bulk shipments to the United States will be settled in the customary manner on the basis of United States Customs weights and polarizations at port of destination. On shipments to other countries settlement is to be made by mark on net shipping weights calculated in English pounds and on actual shipping polarizations.

Sampling and Polarization Allowances.—(j) If shipped to the United States or Canada, sugars are to be sampled and tested as customary, or, in the case of bulk shipments, as above provided in subparagraph (i). Settlement on each shipment will be made on the final test, with adjustments as specified in this contract to be based on "ceiling" price prevailing at port of destination on date of arrival at quarantine, but not less than 3.74 cents per English pound, duty paid, c. & f., New York basis, less duty, with the allowances per pound for each degree above or below the selling basis of 98 degrees to be as follows:

For full degree above 96° to and including 97° add 1.50% of the above indicated price.

For full degree above 97° to and including 98° add an additional 1.25% of the above-indicated price.

For full degree below 96° to and including 95° deduct 1.60% of the above-indicated price.

For full degree below 95° to and including 94° deduct an additional 2.00% of the above-indicated price.

For full degree below 94° to and including 93° deduct an additional 2.50% of the above-indicated price.

Fractions of a degree in proportion.

No allowance above 98°, any sugar polarizing above 98° to be taken as 98°.

No sugar below 98° to be delivered hereunder unless on discount terms mutually satisfactory to the Corporation and the Institute.

(k) Any additional duty, penalty, or expense imposed or incurred for failure to properly mark aforesaid sugars in accordance with United States Tariff laws and regulations shall be paid by the Institute.

(l) If shipped to the United Kingdom, the polarization will be established on sound sugar landed, from which the Corporation and the Institute and/or their Agents are to take three fair average samples of each mix, sealed in bottles. The Corporation and the Institute will each have one tested by a different public Analytical Chemist in London, and the average of their results to be taken as the accepted polarization of the shipment, but should they differ more than one-quarter ($\frac{1}{4}$) of a degree, a third London public chemist will be appointed agreeable to the Corporation and the Institute, and the average of the two nearest to be taken as the basis of settlement. The polarization allowances per pound for each degree above or below the selling basis of 96 degrees shall be the same as would apply under subparagraph (j) above if the shipment had been made to New York and had arrived at New York on the seventh day after the date of sailing from Cuba.

(m) On settlement of sugars, regardless of port or country of destination, there shall be no discount, charge, or penalty of any kind against the Institute, whether by tariff or otherwise, for polarization above 96 degrees.

(n) In the event of any vessel or shipment being lost, the cargo shall be settled as soon as possible but not later than thirty days after proof of loss. The settlement shall be on the basis of the price which would have been applicable to the shipment if it had arrived in New York on the date of the loss and on the basis of the most recent available outturn of the same mark and crop at United States ports, and if such is not available, then on the basis of the bill of lading net weights and Cuban tests of sugar of the same mark and crop. If neither such outturn nor other sugar of the same mark and crop is available, then the settlement will be made on the basis of the bill of lading net weights and 96 degrees polarization. If the date of loss cannot be ascertained by the Corporation, it shall be presumed to have been three days after the date of sailing from Cuban port in the case of shipments to the United States or Canada, and seven days after date of sailing from Cuban port in the case of shipments to the United Kingdom or other countries. If two months after the vessel is overdue at port of destination in the case of a shipment from Cuban port to a United States or Canadian port, or four months after date of sailing from Cuban port to any port outside the United States or Canada, the cargo shall not have arrived at port of destination and proof of loss has not been made, the cargo shall be settled as if it had been lost on a date unknown.

Tonnage and Loading.—(o) The Corporation will furnish or cause to be furnished the ocean tonnage necessary to move all sugars contracted for hereunder before December 31, 1942. With respect to shipments to the United States the shipping will be furnished in time to assure to the Institute that all such shipments will be completed and the cargoes entered and duty paid in the United States not later than December 31, 1942. The Institute will furnish the Corporation from time to time, as requested, such information as it may require as to production, stocks and availability of sugar, including port locations, warehousing, and other pertinent information, in order to enable the Corporation to effect or cause to be effected the orderly movement of the sugar from Cuba under the terms of this Contract. The Institute agrees that the ships furnished by the Corporation will have cargoes placed alongside promptly and under such conditions, except as to those controlled by charter, as have been customary at the port of loading. The Corporation will furnish ships carrying the usual West Indies charter party terms, subject to changes ordered from time to time by the United States Maritime Commission. Dispatch earned, demurrage and extra expenses incurred at port of loading shall be governed by such West Indies charter party terms and shall be for the account of the Institute. Dead freight is for the account of the Institute. The Institute agrees that it will endeavor to give vessels full cargoes at one port wherever reasonably possible, and that in no case will a vessel be required to load on more than one side of the Island of Cuba or at more than two ports on the same side. In the event the United States Maritime Commission should make loading regulations more onerous than at present, any net additional loading costs and demurrage resulting from such changes shall be for the account of the Corporation.

(p) Once the Corporation has notified the Institute of ships which it has available for loading in accordance with subparagraph (o) of this Article Sixth, the Institute will notify the Corporation of the port or ports (which shall be cus-

tomary safe ports situated on the same side of the Island of Cuba and shall not exceed two in number for any one voyage) in which the ships are to be loaded, and the Corporation undertakes that the ships which it furnishes will have the capacity and equipment and be in the condition necessary in order that their loading may be made in accordance with the present requirements of the United States Maritime Commission relative to the loading. The Corporation, insofar as it may be within its power, will announce to the Institute, with due advance notice, the date of arrival of each ship at Cuban port. If such announcement be not made in time sufficient for the Institute to have the sugars in port ready for loading on the arrival of the ship, the duty of the Institute to deliver the sugar for such loading will not commence until the Institute has been able to bring the sugars alongside the ship, which it shall be bound to do, in every case, not later than the fifth day after arrival of the ship. In case a ship arrives at port with a delay of more than five days after the announced date of arrival or does not arrive at all, all reasonable expenses which are occasioned after such five-day period will be for the account and risk of the Corporation; likewise, demurrage expenses incurred in the loading of ships because of their failure to meet the conditions mentioned at the beginning of this paragraph, will be for the account and risk of the Corporation.

(q) In the event the total amount of sugars contracted for hereunder has not been shipped from Cuba before December 16, 1942, because of the inability of the Corporation to obtain the required ocean tonnage, the Corporation will make payment directly to the Institute, on account, of 95% of the contract price applicable to shipments arriving on that date, basis 86 degrees and 325 Spanish pounds per bag, against identity certificates good for the year 1943 and the requisite insurance certificates and warehouse receipts authenticated by the Institute. All carrying expenses, such as warehousing and insurance, will be for the account of the Corporation from December 16, 1942, it being further understood, however, that the Warehousing rates shall be continued unchanged. Final liquidation and payment of the balance of the contract price and final settlement of weights and polarization allowances will be made as provided in subparagraphs (t), (u), and (v) of this Article Sixth.

Discharging.—(r) Usual conditions of Weighing, Sampling, and Polarizing at port of destination are to govern, except as otherwise provided in this contract. The weighing of sugars, except in case of bulk shipments, will be effected at the time of discharge by public weighers at the expense of the Institute and in the presence of representatives of the Corporation.

Payment.—(s) All payments will be in United States currency and will be made in New York funds, or, at the option of the Institute, in Havana, Cuba, in Havana funds, irrespective of the destination of the sugars, except as may be otherwise agreed between the Institute and the Corporation. If the Institute elects that a payment be made in Havana, the bank remittance charge for the transfer of that amount from New York to Havana will be for account of the Institute, but the amount payable by the Corporation will be remitted without any other expense or deduction therefrom chargeable to the Institute.

(t) For sugars shipped to United States ports, a pro forma payment will be made against sight draft or drafts, payable to the order of the shipper of the sugar, presented in port of destination, or in New York, if so requested by consignee, with usual negotiable shipping documents and pro forma invoices attached for ninety-five per cent (95%) of the basic minimum price of 2.65¢ per English pound, f. o. b. Cuban port, and sight draft or drafts to the order of the Institute only, for ninety-five per cent (95%) of any difference between such basic minimum price and the price applicable to the shipment under the provisions of subparagraph (b) of this Article Sixth. As soon as possible after arrival of said sugars at United States port of destination and determination of outturn polarization and weights, but not later than ten days after entry of vessel, final settlement will be made for the sugars contained in such shipment, by remittance to the respective shippers of the net balance due on account of said basic minimum price of 2.65¢ per English pound with proper adjustment for weights, and with allowances for polarizations calculated on 3.74¢ per English pound, duty paid c. & f. New York basis, less duty, and by remittance to the Institute only, of any additional amount payable for said shipment by reason of any higher f. o. b. Cuban port price being applicable thereto under the provisions of the afore-

said subparagraph (b), including any additional allowances based on outturn weights as finally determined and including polarization allowances calculated on the applicable ceiling price, duty paid, c. & f. New York basis, less duty, to the extent that such polarization allowances so calculated exceed those payable to the shipper calculated on 3.74¢ per English pound, duty paid New York basis, less duty.

(u) For all shipment of raw sugar to Canadian ports payment shall be effected by the Corporation on the same basis as shipments to United States ports, except that drafts and shipping documents must be presented in New York.

(v) For all shipments of raw sugar to the United Kingdom or other countries, a pro forma payment will be made against sight draft or drafts, payable to the order of the shipper of the sugar, presented in New York with usual negotiable shipping documents and pro forma invoices attached, for ninety-five percent (95%) of the basic minimum price of 2.65¢ per English pound f. o. b. Cuban port, and sight draft or drafts to the order of the Institute only, for ninety-five percent (95%) of any difference between such basic minimum price and the price applicable to the shipment under the provisions of subparagraphs (b) and (c) of this Article Sixth. As soon as possible after arrival of said sugars at port of destination, and in case of shipments to the United Kingdom, the determination of outturn polarization and weights as provided in subparagraph (l) above, but in no event later than ten days after entry of vessel, final settlement will be made for the sugars contained in such shipment, by remittance to the respective shippers of the net balance due on account of said basic minimum price of 2.65¢ per English pound with proper adjustments for weights, and with allowances for polarizations calculated on 3.74¢ per English pound duty paid c. & f. New York basis, less duty, and by remittance to the Institute only, of any additional amount payable for said shipment by reason of any higher f. o. b. Cuban port price being applicable thereto under the provisions of the aforesaid subparagraphs (b) and (c), including any additional allowances based on outturn weights as finally determined and including polarization allowances calculated on the applicable ceiling price, duty paid, c. & f. New York basis, less duty, to the extent that such polarization allowances so calculated exceed those payable to the shipper calculated on 3.74¢ per English pound, duty paid, New York basis, less duty.

Insurance.—(w) Marine risks from shore to shore, including craft risk, loading, and discharging and including lighter and craft risk in port and/or ports while awaiting arrival of vessels assigned to transport sugars, but attaching not more than seven days prior to due date of arrival of said vessels, will be covered by, and will be for the account of the Corporation. War-risk insurance will be covered by and will be for the account of the Corporation. The Institute will not be obligated to insure the sugar, but the sugar will not be at the risk of the Corporation until the time from which, as provided above, the Corporation is to cover it with marine insurance.

Documents.—(x) The Institute guarantees the Corporation against loss by reason of forged, false, or fictitious drafts or documents unless such loss is from carelessness or lack of customary precautions on the part of the Corporation.

Damaged Sugar.—(y) No damaged sugar will be tendered to vessel at Cuban port and any such sugar may be rejected by the Corporation at port of discharge.

SEVENTH

The Institute agrees that it will cooperate with the Corporation to the end that a maximum amount of any sugar that may be shipped to countries other than the United States, and a maximum amount that can be considered reasonable under existing transportation facilities, of sugars to be shipped to United States south-of-Hatteras ports, shall be shipped from Cuban south side ports: and it also agrees to encourage, as far as conditions in Cuba make it possible, the manufacture by mills which normally ship through Cuban south side ports, of more than their pro rata amount of the total amount of invert molasses sold hereunder. All the foregoing is with a view to minimizing the amount of sugar required to be shipped from Cuban south side ports to United States north-of-Hatteras ports.

EIGHTH

It is understood that the Institute, as to raw sugar customarily sold through brokers, has the right to employ or cause to be employed, for its account, sugar brokers in Cuba and in countries of destination, in connection with the sale,

shipment, delivery, and liquidation of raw sugar sold hereunder, and to determine the brokerage payable. The brokerage payable on each shipment will be divided between the respective broker in Cuba and broker in the country of destination in accordance with the customary practice. No brokerage will be payable by the Corporation.

NINTH

It is recognized that the full amount of the 1942 Cuban direct consumption sugar quota under the United States Sugar Act of 1937, as amended, is required by the United States for consumption in 1942; accordingly the Institute will cause the entire amount of said direct consumption sugar quota to be exported to the United States in 1942 for consumption, it being understood, however, that neither the Institute nor the producers of such direct consumption sugar assume any responsibility for failure to export such sugar because of inability to obtain the necessary tonnage. The Corporation will exert its best efforts to cause to be made available the necessary ocean tonnage for the transportation of said sugars.

TENTH

The Institute hereby sells and agrees to deliver to the Corporation, and the Corporation hereby purchases and agrees to accept delivery of the entire 1942 Cuban crop blackstrap molasses production (except the amount of blackstrap excluded from this sale pursuant to Article First) and the quantity of the 1942 Cuban sugar crop sold hereunder in the form of invert molasses as provided in Articles First and Fourth, on the following terms and conditions:

Price.—(a) The basic minimum price is 2.50 cents, United States currency per English pound of sugars content, f. o. b. tank cars at Cuban port terminal, or f. o. b. tank cars at other customary Cuban coastal point of delivery where delivery is not made to port terminal.

Adjustment of Price.—(b) If at the time of completion of a lot as herein-after defined, the price in effect and payable pursuant to subparagraphs (a) and (b) of Article Sixth of this contract for raw sugar arriving at quarantine at New York on that date, shall exceed 2.65 cents per English pound, f. o. b. Cuban port, the price payable for the molasses delivered on such date of delivery shall be said minimum price of 2.50 cents per English pound plus the amount of such excess of the raw sugar price above 2.65 cents per English pound.

Production.—(c) It is recognized that the maintenance of supplies of blackstrap and invert molasses to permit uninterrupted production of industrial solvents is essential to the war effort of both Cuba and the United States, and that war needs will require early supplies of invert molasses; and both the Institute and the Corporation will cooperate in the fulfillment of that purpose. The Institute will arrange that by March 15, 1942, there will be delivered to port terminal or other Cuban coastal point of delivery not less than 100,000,000 gallons of molasses, including the amount of blackstrap molasses available on that date. The Corporation will take all steps necessary to provide ocean-going vessels requisite for the prompt shipment of such molasses. Blackstrap molasses produced during the course of sugar manufacture shall be shipped and delivered as provided in subparagraphs (d) and (e) of this Article Tenth. Production of additional invert molasses up to the amount provided in Article Fourth of this contract shall proceed according to a schedule to be agreed upon between the Corporation and the Institute, and such invert molasses, when and as produced, shall be shipped and delivered as provided in subparagraphs (d) and (e) of this Article Tenth.

(d) As soon as possible after the execution of this contract and in sufficient time to permit shipment from each mill of all the blackstrap and invert molasses to be produced at such mill, the Corporation and the Institute will agree on the terminal or terminals in the customary ports or other customary Cuban coastal points of delivery to which the molasses from such mill shall be shipped throughout the term of this contract. In making such designations the Corporation and the Institute will designate for each mill the ports and terminals or other coastal points of delivery to which the molasses from such mill has customarily been shipped, and to the fullest extent permitted by the practicabilities of arranging for the orderly inland and ocean movement of the entire amount of blackstrap and invert molasses, the Corporation and the Institute in making such designations will provide for the shipment by each mill to terminal at customary port or other customary coastal point of delivery

or at any other point where delivery could be made at lower cost, provided the pumping and handling expenses at such other points of delivery are not higher than at the customary point, and provided also that the handling and shipping at such other points of delivery could be made with equal efficiency. After the Corporation and the Institute have designated the terminal or terminals or other Cuban coastal points of delivery to which the molasses which may be produced at a particular mill is to be shipped, the Corporation may at its option where necessary at any time within the term of this contract direct that delivery be made at any terminal or Cuban coastal point of delivery other than that originally designated, but in such case the additional freight, and any other expenses, over the amounts required in delivery to the designated point of delivery, shall be borne by the Corporation.

Delivery.—(e) Except in the case of delivery at batey tank as hereinafter provided, delivery of molasses shall be considered made and title to all molasses shall pass upon the arrival in tank cars at port terminal or, by agreement between the Institute and the Corporation, at other Cuban coastal points of delivery. Upon delivery the molasses shall be weighed or measured, and sampling shall be made and analysis determined as provided in subparagraph (h) of this Article Tenth, and payment will be computed for settlement as provided in subparagraph (j) of this Article Tenth. After delivery all molasses shall be at the risk of the Corporation, and at its expense. It is the understanding of the Corporation and the Institute that the orderly movement of molasses will require the utilization to the fullest possible extent of all available batey storage facilities at Cuban mills. The Corporation will endeavor to arrange for the shipment to and acceptance at port terminals or other customary Cuban coastal points of delivery of all molasses subject to the necessity of coordinating in orderly fashion the internal Cuban and ocean tanker movement of the entire product of molasses from the 1942 crop.

(f) The Corporation will on or before August 31, 1942, accept delivery in batey tanks of all molasses remaining on such date in such batey tanks. In such case the mill shall issue batey tank receipts covering the assumed contents of each separate tank, which tank shall be sealed, and upon the presentation of such batey tank receipts, with safeguards concerning custody satisfactory to the Corporation, title shall pass to the Corporation and thereafter such molasses shall be at the risk of the Corporation. In issuing such batey tank receipts the mill shall employ the assumptions as to sugars content, and weight of molasses gallonage, specified in subparagraph (i) of this Article Tenth. The delivery of such batey tank receipts shall constitute delivery for purposes of the initial payment under subparagraph (j) of this Article Tenth; provided, however, that the weights determined or assumed at batey tank shall be determined for final settlement by weighing at the time of arrival at port terminal, or other stipulated Cuban coastal point of delivery, and final settlement shall be based on analysis of samples taken at the customary place of sampling. Following any delivery at batey tank, the mill shall upon surrender or pro tanto cancellation by the Corporation of batey tank receipts issued therefor by the mill, ship such molasses, as and when directed by the Corporation, with freight in such case for the account of the Corporation. The Corporation will use its best efforts to direct shipments so as to complete the removal of all molasses from batey tanks by November 30, 1942. Thereafter any molasses which have not been removed from batey tank shall, after thirty (30) days' notice has been given to the Corporation, be subject to the provision of subparagraph (k) of this Article Tenth. No charge shall be made for storage in batey tank where delivery is taken in such tank.

(g) In the delivery of molasses, as provided above in subparagraph (e), all blackstrap and invert molasses shall be kept separate except that where the available tank capacity at batey does not permit such separate storage, and if it is necessary in the case of any molasses stored at batey to commingle blackstrap and invert molasses in the same tank, the mill may do so and shall give advance notice to the Institute and the Corporation whenever possible. In the case of any such necessary commingling, the mill shall keep accurate records of the gallonage, sugars content, and Brix of the molasses commingled, and such records as well as the mill production records for the period involved shall be available for the use of the Corporation.

Sampling and "Lot."—(h) Sampling shall be done at the customary time and place prevailing with respect to each mill. Where sampling is done at the time of arrival at port terminal, a sample of the same quantity shall be

taken from each car upon arrival at terminal. A composite sample shall be preferred for each "lot". A "lot" shall consist of 500,000 gallons, or a calendar week's receipts, from any mill, whichever is first, and in the event of any applicable price change under subparagraph (b), a "lot" shall constitute the number of gallons sampled between the completion of the last lot and the date of such price change. Each lot shall be settled separately on the basis of such composite sample in accordance with subparagraph (j). Such composite sample shall be divided into at least four parts each of which shall be sealed. All sampling shall be done in the presence of a representative of the Institute and a representative of the Corporation. Each such representative shall sign each of the sealed parts. Two parts of such composite sample shall be for the Institute, another for the Corporation, and the remaining one shall be retained at the port terminal in the Corporation's custody. Each of the parties shall have analyses made of their samples in accordance with the Munson & Walker method or, by agreement between the Institute and the Corporation, any other commercially accepted alternate method. If the resulting analyses shall differ by not more than one per cent (1%) of total sugars, the total sugars content of the molasses involved shall be the average of the two analyses. If the difference is more than one per cent (1%) of total sugars, the fourth sample shall be submitted, at the joint expense of the Institute and the Corporation, to the New York Sugar Trade Laboratory whose analysis shall be accepted as final by both parties. Where sampling is customarily done at the time of pumping into vessel, a continuous drip sample shall be drawn, in the joint presence of the representatives of the Institute and the Corporation, from the drip cock on the main load line to the receiving tank vessel as the molasses is being loaded. A composite sample representing the entire delivery shall be obtained and shall be divided, sealed, and signed and analyzed as above.

Estimating Sugars and Gallonage.—(i) For the purpose of issuing batey tank receipts as provided in subparagraph (f) and for computing initial payments, pending receipt of final analysis, as provided in subparagraph (j) of this Article Tenth, invert molasses shall be assumed to contain seventy-five percent (75%) total sugars, and blackstrap molasses assumed to contain fifty-two percent (52%) total sugars and where necessary for estimating total payment, the gallonage of molasses is to be estimated on an assumed weight of twelve (12) pounds per gallon.

Payment.—(j) For all deliveries of molasses under the terms of this Agreement payment shall be computed and settlement made as follows:

I. COMPUTATION OF TOTAL PAYMENT. The total amount of payment shall be the price, as provided in subparagraphs (a) and (b) of this Article Tenth, per each pound of sugars content in each lot of molasses based on analysis of sample taken at the customary place and weight at port terminal or other customary Cuban coastal point of delivery, or any other place agreed upon between the Institute and the Corporation. In the case of blackstrap molasses there shall be deducted for each physical gallon of blackstrap molasses the sum of two cents basis fifty-two percent (52%) total sugars, which deduction shall be increased $\frac{1}{2}$ of two cents for each percent of sugar less than fifty-two percent (52%) total sugars and shall be decreased $\frac{1}{2}$ of two cents for each percent above fifty-two percent (52%) total sugars, fractions of a percent in proportion. On the total payment thus computed there shall also be added any adjustments necessary under subparagraph (d) of this Article Tenth. Where delivery is taken at batey tank pursuant to subparagraph (f) of this Article Tenth, there shall also be deducted the estimated amount of railroad freight to the designated customary terminal or other customary Cuban coastal point of delivery, subject to exact determination at the time of final settlement. In the case of any commingled molasses, when delivered as provided in subparagraph (g) of this Article Tenth, the gallonage of blackstrap molasses present in the commingled delivery shall be determined from the mill records and the deductions computed as above on the basis of sugar content of such blackstrap molasses.

II. SETTLEMENT. Pro forma payments will be made within fifteen (15) days after completion of each lot, as follows: To the mill which produced the molasses (or to the Institute if the Institute so directs) ninety percent (90%) of the estimated total amount due on such lot calculated on the basic minimum price per pound of 2.50 cents per pound of sugars content as provided in subparagraph (a), and simultaneously, to the Institute, ninety percent (90%) of any additional estimated amount due on such lot corresponding to any excess of the applicable price on such lot determined in accordance with

subparagraph (b) above the basic minimum price of 2.50 cents per pound of sugars content. At the time of receipt of final analysis of the composite sample of each lot, final payment shall be made as follows: To the mill which produced the molasses (or to the Institute if the Institute so directs) the amount corresponding to the basic minimum price of 2.50 cents aforesaid, and, simultaneously, to the Institute the amount corresponding to any excess of the applicable price on such lot above said minimum price of 2.50 cents per pound of sugars content. All payments will be in United States currency and will be made in New York in New York funds, or, at the option of the Institute, in Havana, Cuba, in Havana funds, except as may be otherwise agreed between the Institute and the Corporation. If the Institute elects that a payment be made in Havana, the bank remittance charge for the transfer of such amount from New York to Havana will be for the account of the Institute, but the amount payable by the Corporation will be remitted without any other expense or deduction therefrom chargeable to the Institute.

Losses through Ditching.—(k) In the event that both inability to deliver to port terminal and exhaustion of batey tank facilities threatens to result in the ditching and loss of molasses at any mill, such mill shall notify both the Corporation and the Institute by notice given not less than five (5) days prior to the time the threatened exhaustion of storage will occur. If losses from required ditching of molasses are due to the inability of the Corporation to take further delivery at any port terminal because of lack of tank space, or lack of ocean-going tankers, or for any other cause except act of the Cuban Government or any subdivision thereof, Act of God or enemy action in Cuba, the Corporation shall reimburse the mill for all losses of molasses (as though such molasses had been delivered under this contract on the date of ditching) and shall also reimburse such mill in full for all fines or penalties which may be imposed by the Cuban Government or any subdivision thereof, because of such ditching of molasses. Any and all reimbursement, however, shall be conditioned upon such mill having first ditched blackstrap in lieu of invert molasses wherever possible, having weighed or measured and sampled all molasses ditched, and having in every reasonable way minimized such losses, it being recognized that in order to minimize such ditching mills may produce raw sugar instead of invert molasses.

ELEVENTH

The Corporation and the Institute shall have the right from time to time to assign their respective rights and obligations under this contract with respect to all or any part of the sugar and molasses contracted for herein, but each shall remain responsible to the other for performance by their respective assignees. Each shall promptly notify the other of every such assignment made by it.

TWELFTH

1. All disagreements arising under this contract which cannot be settled by the Corporation and the Institute shall be submitted by them to a board of three arbitrators, one arbitrator to be selected by each of the parties and the third arbitrator to be selected by mutual agreement. The decision of any two of said arbitrators shall be final and conclusive. The arbitrators shall serve without compensation and the parties shall bear the expenses of the arbitration equally. All arbitration will take place in Havana, Cuba, or Washington, D. C., as may be agreed upon by the Corporation and the Institute.

2. Any dispute involving one or more of the assignees of the Institute or the Corporation or both shall be submitted to the Institute and the Corporation, and if not settled by the Institute and the Corporation, shall be submitted to arbitration as provided in the preceding paragraph.

3. For legal effect in Cuba, the arbitration referred to will be considered as the arbitration under the provisions of Articles 826 to 838 of the Cuban Law of Civil Procedure.

THIRTEENTH

1. Should any case of force majeure in the Island of Cuba prevent the making or delivering of the sugar and molasses covered by this contract, the Institute shall so advise the Corporation immediately and thereupon shall be released from delivery of such portion of the crop as cannot be made or delivered, but the Institute agrees to use due diligence to carry out this contract in its entirety notwithstanding such force majeure.

2. Should any case of force majeure prevent the Corporation or its assignees from receiving the sugar and molasses purchased under this contract, the Corporation shall immediately give notice of such conditions to the Institute and thereupon the Corporation and its assignees shall be released from any damages by reason of nonacceptance of raw sugar or molasses (except raw sugars or molasses afloat) during the time that the above conditions continue, but the Corporation will use all due diligence to carry out this contract in its entirety notwithstanding the force majeure.

FOURTEENTH

Any notice to be given to the Institute may be given by telegram, cable, or radiogram sent to the office of the Institute in Havana, Cuba; and any notice to be given to the Corporation may be given by telegram, cable, or radiogram sent to the Corporation at Washington, D. C. The Institute and the Corporation, or their respective assignees, may agree to employ any other reasonable form of notice, written, telegraphic, cable, or radiogram, provided, however, the duplicates of all such notices will be sent to the Institute and the Corporation. All notices given by telegram, cable, or radiogram shall be confirmed by letter.

FIFTEENTH

All sugar and molasses sold hereunder shall be delivered and shall be available for export, free from all Cuban taxes, national, provincial, or local; and all payments and remittances of funds for sugar and molasses sold hereunder shall be made free from all United States taxation, national, state, or local. It is understood that this contract and any assignments thereof by the Institute or the Corporation respectively will be free from taxation by the Republic of Cuba or any subdivisions thereof, and by the United States, or any subdivisions thereof; and that any Cuban taxes which are or may be imposed thereon or on the sale, resale, or export of the sugar and molasses hereunder will be for the account of the Institute and any United States taxes which are or may be imposed thereon or on the payments or remittances of funds hereunder will be for the account of the Corporation.

SIXTEENTH

Definitions

1. Unless the following words and phrases as used in this contract should, from the context, clearly have a meaning different from the definitions given below, the meaning, as defined herein, shall prevail.

"*Blackstrap Molasses*" shall mean the commercially so-designed final molasses resulting from the customary methods of sugar manufacture in Cuba.

"*Invert Molasses*" shall mean the commercially so-designated molasses made directly from sugarcane by the customary methods, and shall contain at time of manufacture not less than seventy-five percent (75%) total sugars, nor more than seventy-nine percent (79%) total sugars, and shall be satisfactorily inverted to prevent subsequent crystallization.

A "*gallon*" shall mean a standard United States gallon of 231 cubic inches.

A "*pound*" shall mean a standard English pound avoirdupois.

An "*English short ton*" shall mean 2,000 English pounds.

A "*Spanish long ton*" shall mean 2,240 Spanish pounds.

"*Total Sugars*" or "*Sugars Content*" shall mean the aggregate of the sucrose and invert sugars.

"*Brix*" shall mean Brix determined in accordance with the so-called double dilution method customarily used in the molasses industry, at 20 degrees centigrade.

"*Weight*," in the case of molasses, shall mean the weight determined (a) by pneumatic readings at batey tanks equipped therewith, or (b) where batey tanks are not so equipped then by computation from volumetric measurement obtained by gauging, temperatures, and Brix of a dip sample, or (c) at port terminal by pneumatic reading or by weighing of tank cars, full and empty, or terminal scales or railroad scales at terminals; provided, that representatives of the Institute or the producer and the Corporation shall have the right to check weights, or the accuracy of pneumatic readings, and to make joint dips.

"*Conversion of Weights to Gallons*" shall be accomplished by taking the Brix as determined by analysis, and dividing the net weight of the delivery in pounds

by the weight per gallon corresponding to the Brix as shown in Spencer-Meade's Sugar Handbook, Seventh Edition, pp. 476-477.

"Tank Car" shall mean any means of transportation utilized in transporting molasses from barge to port terminal or other coastal point of delivery.

2. In case the Institute or the Corporation shall have assigned or ceded to a third party their rights and obligations with respect to any particular amount of raw sugar or invert molasses or of blackstrap molasses included in this contract, the term "Institute" or "Corporation" used in this contract shall, unless the context otherwise indicates, include, with respect to such raw sugar or molasses, such assignee or assignees, it being understood, however, that notwithstanding any such assignments the Corporation and the Institute shall remain responsible to each other for performance of this contract by their respective assignees.

SEVENTEENTH

The Corporation and the Institute mutually declare that they are not entering into this contract with a view to realizing any eventual net profit for their own account from the operation thereof and that in the exercise of their respective rights to assign portions of this contract in accordance with the provisions of Article Eleventh they will not seek to obtain any such profit. Should any possibility to obtain such eventual net profit arise with respect to the position of either party, such party agrees to disclose the circumstances to the other party before acting in an attempt to reach an agreement on the course of action to be followed.

EIGHTEENTH

This contract has been drawn in the Spanish and English languages.

IN WITNESS WHEREOF, the Corporation and the Institute, being duly authorized to enter into this contract, have executed it by their duly authorized representatives as of the day and year first above written.

DEFENSE SUPPLIES CORPORATION,
By JAMES F. MERSKLAU,
INSTITUTO CUBANO DE ESTABILIZACION DEL AZÚCAR,
By JOSÉ MANUEL CASANOVA,
By TEODORO SANTIESTEBAN.

Mr. GOODLOE. I would like, Mr. Chairman, if I may, in reference to the Cuban agreement, assuming that you had in mind some change in the form of invert molasses, we have recently arranged with the Cuban Institute for a reduction in that quantity to 700,000 tons from the original 1,000,000 plus the possibility of 1,200,000, too.

Mr. PLOESER. As the conversion of production of industrial alcohol to grain progresses, you will probably further reduce the agreement for invert molasses.

Mr. GOODLOE. It is unlikely unless it is done in the near future, you see, because they are just getting into full production of their crop. March and April are the big months.

Mr. PLOESER. If it is not done early, why we will have the invert molasses, whether we want it or not.

The CHAIRMAN. Are there any further questions?

Mr. PLOESER. It would be dangerous to reduce that drastically and then find that we run into new bottlenecks on the conversion of machinery to grain.

Mr. GOODLOE. I may say this, the recent reduction in quantity of invert molasses was due primarily to the transportation problem and the urgent necessity of avoiding ditching.

The CHAIRMAN. Thank you very kindly, Mr. Goodloe, and Mr. Sabin.

Were you identified for the record, Mr. Sabin?

Mr. GOODLOE. Yes; I identified him as Mr. S. H. Sabin, special assistant, Defense Supplies Corporation.

The CHAIRMAN. If it is all right with you gentlemen, we will meet at 10 o'clock tomorrow. We will hear Mr. Henry A. Cushman, chairman, food industries committee, Smaller Business Men's Association of New England, at 10 o'clock, and Mr. A. E. Bowman, Chief, Sugar Section, War Production Board.

Mr. Arthur Becker, assistant counsel, Maritime Commission.

Next, Mr. Douglas C. Townson, Chief, Food Section, War Production Board. Next, Mr. Tyre Taylor, general counsel, National Retail Grocers Association.

Next, Mr. Roland Jones, National Association of Retail Druggists.

Next, Phillip Gott, president, National Confectioners Association.

Next, Mr. John J. Riley, secretary, American Bottlers of Carbonated Beverages.

Next, Mr. Albert S. Nemir, sugar expert, Department of Commerce.

We will now stand in recess until tomorrow morning at 10 o'clock.

(Whereupon at 11:50 a. m., this hearing was adjourned until 10 a. m. Wednesday, March 18, 1942.)

SMALL BUSINESS IN THE UNITED STATES

WEDNESDAY, MARCH 18, 1942

HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE TO CONDUCT A STUDY AND INVESTIGATION
OF THE NATIONAL DEFENSE PROGRAM IN ITS RELATION TO
SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.

The select committee met, pursuant to adjournment, at 10 a. m., in the caucus room, Old House of Representatives Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman (chairman), Fitzgerald, Kelly, Bulwinkle, and Halleck.

The CHAIRMAN. The committee will come to order.

Is Mr. Cushman here?

Mr. Cushman, give your name, address and position, if any, to the reporter.

STATEMENT OF HENRY A. CUSHMAN

Mr. CUSHMAN. My name is Henry A. Cushman. I am chairman of the food industries committee, Small Business Association of New England.

The CHAIRMAN. Have you any statement to make, Mr. Cushman?

Mr. CUSHMAN. Mr. Chairman and gentlemen, I am to talk this morning on M-55, and give you—

Mr. BULWINKLE. May I have a copy of M-55? Has anyone got it here.

(Copy of document handed to Mr. Bulwinkle.)

Mr. CUSHMAN (continuing). On behalf of our 15,000 affiliated members, to give you some idea of how M-55 is operating in the field. I realize that this is wartime. There has been a lot of activity; sugar, being an imported product, touches a great many departments of the Government, such as special agencies which have been created, and it would be ridiculous for us not to appreciate the position of the Sugar Section and I should like you to know that we have an understanding of their problems, and when we criticize we are not particularly criticizing the Sugar Section.

Mr. BULWINKLE. Just criticizing the policy?

Mr. CUSHMAN. Sugar order M-55 was inaugurated on December 13 in great haste to stem hoarding. It contained many bad and inequitable features. Before the end of the month an amendment was issued releasing enough more sugar in an attempt to prevent unreasonable hardship. Then early in January the second amendment came through providing for the receiver who had not purchased sugar during the corresponding period in 1940.

The food industries committee of Smaller Business Association of New England visited the Sugar Division of the then O. P. M. and urged certain changes which we believed would aid in the equitable distribution of available sugar. For example, because there had been speculation in sugar, we felt that quotas should be based on use or resale rather than on purchases. Also, because there were taking place shifts in population to war industrial areas, we recommended 1941 base figures instead of 1940. These suggestions were adopted as were a number of others.

At this point, we should like to go on record explaining our complete understanding of the tremendous task confronted by the Sugar Division and to say that everybody from Mr. Bowman and Mr. Thompson right down to the least employee, applied themselves courteously and intelligently over the longest hours under killing circumstances, a splendid example of public service. We are going to criticize here many developments which took place, but all the time we lean in favor of the personnel of the Sugar Division but we blame circumstances which are hard to define and which we hope this investigation will clear up.

The original M-55 with the amendments placed a receiver in one of the four following categories: (1) He had purchased all the sugar he used or resold in January 1940 and was, therefore, entitled to purchase an equal amount in January 1942. (2) He carried over from 1939 a large portion of sugar needed for January 1940, so during January 1942 he was allowed only the small amount actually purchased in January 1940. (3) He purchased no sugar in January 1940 so was allowed to average his purchases over September, October, and November, 1941, and draw out 85 percent of that average. (4) He had a large stock of sugar on hand so was allowed to keep an amount equal to his purchases during December and January 1940, plus two carloads—600 bags per car—and the balance was frozen.

Four receivers each with the same annual volume would end up approximately as follows: (1) 300 bags for use or resale during January 1942; (2) 120 bags for use or resale during January 1942; (3) 336 bags for use or resale during January 1942; (4) 900 bags for use or resale during January 1942.

If the original order had have (sic) been set up on use or resale, all these inequities would have been avoided. A lack of understanding was also evident when the original order froze all over two carloads. True, a wholesaler would sell these two carloads and only profit about 25 cents per bag, which is cigarette money, but in a number of manufactured items these two carloads would permit the processing of \$95,000 worth of merchandise and did and was promptly sold in a short market. From this, it would appear that no manufacturer set in on the drawing up of this order. Anyway, why allow a two-carload bulge to the receiver who just happened to be stocked? All this sugar was not only lost to control, but created inequities unthinkable.

The original order was lax, too, in that it did not restrict refineries to sales only to receivers whose purchases were controlled. This left the refiner open to bombardment by others, than receivers looking to hoard. This drained off more sugar but was covered in the amendment of January 24 by the following clause. [Reading:]

(c) (1) No primary distributor shall deliver direct consumption sugar to any person with knowledge or reason to believe that such person is not entitled to accept delivery thereof under this order.

This earmarks every bag of sugar leaving the refineries. With the introduction of household rationing, care must be exercised to see that every bag is earmarked after it leaves the refinery as otherwise there will be bootlegging. Many outlets right now could pay \$25 for a bag of sugar, add \$2 worth of extracts plus water and retail the whole for \$96.

At present there is widespread bootlegging of sugar in the New England areas. The present prevailing price for such sugar seems to be around \$10 per hundred, some is being held for a higher price according to current information.

We urged the now famous equity clause in the January 24 amendment. [Reading:]

(c) (3) Any receiver who, in the usual course of business, resells to purchasers other than ultimate household consumers more than 50 percent of the direct-consumption sugar he buys shall resell sugar equitably among such purchasers and shall not favor purchasers who purchase other products from him nor discriminate against purchasers who do not purchase other products from him.

But why the 50-percent joker? We cannot convince many small processors (thousands of them throughout the United States) that corporation chain-store men did not write that clause. For years corporation chain stores have sold sugar at close margin. Before a law intervened they frequently used sugar as a loss-leader. A common practice was for chain-store managers to solicit sugar business from hotels, restaurants, candy kitchens, drug stores, bottling plants, and the like on the plea that this business helped their dollar sales showing. The above clause even releases the "spirit" obligation of the chains and goes out of the way to make it legal for them to say "no." They have said "no" to the utter despair and demoralization of tens of thousands of small businesses.

(d) (1) and (2): These clauses deal with persons not in business during the whole of 1941. Because many manufacturers deal in seasonal products where sugar used in given months will amount to three or four times that used in other months the average of October, November, and December rarely works out in equity. Hopelessly too little in some cases and grossly too much in others. Another formula would be simply to fold the calendar in the middle matching January with December, February with November, March with October, April with September, May with August, and June with July. A check with the records of most receivers proves that this is the proper formula.

(d) (5): Here are 10 categories of sales which are not restricted to quota, such as to Army, Navy, lend-lease, ships, and so forth. Here again a grave injustice exists. All sugar used in sales to these 10 subdivisions is recoverable 100 percent this year over and above the seller's regular quota, but the sugar used last year in sales to these 10 categories is not deducted from his this year's regular quota. Organizations doing business last year chiefly with the above find themselves this year with sugar which they can dump into the restricted market. Here alone, Sugar Division can recover for the general use all the sugar used last year in sales to these 10 divisions.

The original order was apparently intended simply to restrict the sales made by refineries and importers, but it did not even achieve that because it did not restrict their sales to receivers only. The amendment of January 24 corrected this. The original order did not even specify that any manufacturer or other user who purchased sugar from

a receiver should use all such sugar only in quantities as stipulated from time to time by the Director of Priorities. Therefore, if a user could induce a wholesale house to favor him, he could go out and knock the spots off his competitor who happened to be buying from a refinery and was limited to quotas as stipulated by the Director of Priorities. Even today, after 3 months of attempted distribution in equity, a wholesaler, who last year sold to the 10 exempted categories, has sugar to sell in abundance to the lucky processor who happens to be buying from wholesalers and not a refinery. Similarly, any wholesaler can today stick strictly to the letter of the equity clause and still favor his buyers with sugar assigned to him this year for customers of last year who have since quit him or gone out of business. All this appears complicated, but it is not; and this maldistribution, which presently is rampant, could all have been prevented by a few simple clauses in the order, and by so doing, tons upon tons of sugar would have been saved for equitable distribution.

We have pointed out the leaks that have been left open for these 3 months, and no one who has had anything to do with sugar over this period will dispute that if these leaks had been plugged, the sugar situation would not today be so serious. Add to that the dislocation and loss incurred by industrial users of sugar and the injury is appalling.

Many persons journeyed to Washington seeking relief and were told that no relief could be granted; yet, at home, their competitors were going full blast. Some such competitors who, aside from benefiting through the loopholes already described, were further fortunate through having been former customers of the corn-sugar producers. These producers have, in the main, refused to take on new accounts. The fortunate corn-sugar and sirup users have this material over and above their full quotas of other sugars. For a number of years the corn-sugar manufacturers have been employing full-page, beautifully colored, lithographed advertisements in national magazines telling the world that their product is sugar. Of course it is sugar, so why is it not under control? There certainly never will be equitable distribution of sugar until corn sugar and plain corn sirup are regulated just as beet and cane sugars and sirups are regulated.

No further evidence is necessary to prove that there has been maldistribution of sugar from December 13 right up to today. Under such circumstances, the ones to suffer are the smaller business establishments and their neighborhood patrons. Therefore, those affected constitute 75 percent of our population.

The Small Business Association of New England has maintained from the start and each day further proves that sugar, with its wide use in hundreds of foods, is the key food item in maintaining efficiency and morale on the home front. If distributed in absolute equity, our people will accept the rationing in good behavior; but if not, they will be disturbed now, and this condition will be further agitated as other commodities come under control.

The tremendous volume of publicity given to sugar proves its importance. So-called official statements out of Washington have been harmful. There have been "information from authoritative sources" published in the morning newspapers, another story in the afternoon with conflicting statements, then a contradictory story the following morning, all reputed to have come from the same "reliable

source." This condition is taxing the morale of a very large segment of our peoples who are suffering losses which threaten their livelihood.

We are a law-abiding people, and when our Government says "Thou shalt not," it needs to be said to all the people alike. Our people are ingenious and, if left to their own devices, will improvise and survive, and blame no one. However, when placed under legal ban, that ban had better be equitable.

Sugar is not just something we put into a cup of coffee and partially dissolve, but is a vital element in hundreds of food items without which a people's diet is thrown out of line. If the sugar content of an individual's blood dips below a certain percentage, it is scientifically established that the individual becomes irritable and is apt to make trouble. We need not have to know that this sugar content should be about 90 milligrams for every 100 cubic centimeters of blood; all we need do is read where a waiter in Indiana was wounded with a mustard jar by an irate customer when refused more sugar, and another waiter in New York was thrown through a plate-glass window for the same reason. These are just straws in the wind which is blowing up as a result of maldistribution of sugar.

Our plea is that if one branch of our Government deems it important enough at this critical time to spend great effort and huge sums of money in a campaign against "Hidden hunger," cannot something be done that is not now being done to obtain more equitable distribution of the available sugar?

We have a suggestion, and it contains no castigation on any department of Government or any individuals therein. We suggest a one-man control, an official whose duties would be to shape the sugar program as a whole and direct and coordinate all persons having any functions in connection therewith. We do not propose that such sugar-control administrator would have a great staff and tentacles reaching out, but only a man with an office and a small staff of technical assistants. Such an administrator should, as one of his primary functions, have the authority to approve all official statements to the public on the question of sugar in order to prevent further confusion in the minds of the people.

In conclusion, may I say that already your committee has brought out one important fact which smaller business will be glad to know about. Nowhere was any information available on this subject until you brought it out. Seven hundred thousand tons or less of sugar is at present assigned to alcohol instead of the 1,300,000 tons as originally estimated. There is alone 600,000 tons or more of Cuban sugar for general use. That is good news, and I am sure that many other good results will develop out of this hearing.

Mr. Chairman, I have a copy of a letter here which the president of the Small Business Association of New England wrote to Mr. Donald Nelson on March 1, and if it is the pleasure of the committee I should like to have it incorporated in the record.

The CHAIRMAN. Without objection it will be incorporated in the record.

(Said letter is as follows:)

MARCH 1, 1942.

MR. DONALD M. NELSON,
Chairman, War Production Board,
Social Security Building, Washington, D. C.

DEAR MR. NELSON: In the all-out war effort in which we are engaged, the problem of sugar is not being given sufficient consideration.

This is being directed to your attention because I believe that you have the power to make the necessary changes in organization which would correct the present control, which is inept and inadequate.

From observation during my several visits to Washington since M-55 on December 13, 1941, conditions have reached a point where there is need of a one-man control, similar to the authority given to Mr. Kanzler in the automobile industry.

At present the following agencies are working on some phase of sugar, each with sufficient power to act independently of the others:

Sugar Division, War Production Board;
Sugar Division, Office of Price Administration;
Maritime Commission;
Department of State;
Defense Supplies Corporation;
Department of Agriculture.

Without coordination, their decisions have many times delayed action that was needed to relieve serious conditions.

We have tried to contribute toward an equitable distribution of sugar to all business, and we were assured that the small businessman would receive his just share. Conditions which were serious the first of the year have grown steadily worse, and what sugar there is in this section is out of control. There have been many ill-timed releases which have served to aggravate the present situation.

Small business is entitled to the facts and its equitable share of any critical raw material should not be dependent upon inefficiency in Washington or the selfish interests of certain people in positions of control.

We urge that you consider the establishment of a one-man control, which would coordinate and direct into productive channels the efforts of the many different agencies now working on sugar.

With kind personal regards.

Very sincerely,

RICHARD C. COOKE, *President.*

The CHAIRMAN. Major Bulwinkle, would you like to ask some questions?

Mr. BULWINKLE. In this discussion of this order M-55—

Mr. CUSHMAN. Yes, sir.

Mr. BULWINKLE. Have you a copy of the order there?

Mr. CUSHMAN. Yes, I have; thank you.

Mr. BULWINKLE. Tell me which sections of that you think—which clauses or sections or paragraphs, you think should be amended.

Mr. CUSHMAN. I think they are all—it is a very long document, and I think they are all incorporated—

Mr. BULWINKLE. Well, you have shown the restrictions under 3, clause (c); that is the main one, isn't it?

Mr. CUSHMAN. That is one, I am not so sure, Major, that I would say that this should be amended, and I will tell you the reason why.

The same division allocates—the sugar section, rather—allocates sugar, as I understand it, and going on down to the O. P. A. and there the O. P. A. takes over.

Now, the difficulty on that clause is that we have these small manufacturers who buy at retail, which is under the supervision of the O. P. A., and yet they are processors, or manufacturers, so that I don't know that I would know now how the Government procedure—

Mr. BULWINKLE. Well, let me ask you this question, then, in the case of a hotel, we will say, for instance, and a chain store, that this

hotel has been buying sugar from the chain store previously in quantities, and just now the chain store refuses to sell to hotels, that is the section that you are speaking about?

Mr. CUSHMAN. Yes, sir.

Mr. BULWINKLE. That causes that.

Mr. CUSHMAN. Yes, sir.

Mr. BULWINKLE. Therefore, the operator or proprietor of that chain store uses that sugar that he had gotten credit for—

Mr. CUSHMAN. Yes, sir.

Mr. BULWINKLE. On his last year's purchases to increase to other customers, and bring in trade, is that right?

Mr. CUSHMAN. Yes, sir.

Mr. BULWINKLE. And is not that your main cause of grievance that you have?

Mr. CUSHMAN. That is one; yes, sir. It may be the main one, but in answer to your original question, as to whether it should be amended, I don't know whether it is a problem for O. P. A., the Sugar Section—

Mr. BULWINKLE. Well, it is a problem for the W. P. B., I think; I don't think there is any question about that.

Mr. CUSHMAN. That is right.

Mr. BULWINKLE. Now which other sections would you suggest that are affecting your business, because I want to bring this to an issue, so that the committee can know just what you claim is wrong with this.

Mr. CUSHMAN. Well, C-3, that is the one we just talked about—

Mr. BULWINKLE. Yes.

Mr. CUSHMAN. I think C-1, that is taken care of.

D (1) and (2), these deal with receivers not in business the full year of 1941, and we suggest matching month for month rather than taking October, November, and December and averaging them.

Mr. BULWINKLE. Yes, so those are the three sections that this committee will have at issue.

Mr. CUSHMAN. No, sir; there are more.

Mr. BULWINKLE. Largely. What I am just trying to find out—

Mr. CUSHMAN. Well, for the moment, if there is any—offhand, there is that one dealing with the 10 categories D (5).

Mr. BULWINKLE. All right, how does that affect you, just briefly?

Mr. CUSHMAN. Well, there are—

Mr. BULWINKLE. Let me ask you this: That is the one, isn't it, that says the wholesaler that sold to the Army posts last year—

Mr. CUSHMAN. Yes; a wholesaler selling largely to Army posts and still sells to Army posts, and finds himself with his last year's sugar on his hands and goes out and gets new customers for that sugar.

Mr. BULWINKLE. All right, Mr. Chairman, I just wanted to know that.

The CHAIRMAN. I want to ask you a few questions, Mr. Cushman, you mentioned circumstances hard to define which have caused this impediment. Do you have an opinion upon what these circumstances are?

Mr. CUSHMAN. Yes, Mr. Chairman, there are some 9 or 10 departments of the Government which have to do with sugar, because sugar

is an imported product, it is in some departments, there are 2 or 3 sections, such as in the W. P. B., concerning the Sugar Section, the Food Supply Board, and the Chemical Division, to mention only those.

The CHAIRMAN. Well, doesn't that too apply to steel and other important and strategic products?

Mr. CUSHMAN. I would not be qualified to say that it applies to steel, but I believe that on the whole you will find any imported product will touch more departments.

The CHAIRMAN. You mentioned here about "earmarking" every bag of sugar so as to avoid bootlegging. Do you think that can be done very well?

Mr. CUSHMAN. I think that could, and we can only say from our experience it seems to me the principal difficulty has developed through that clause C (3) which we are talking about and in the O. P. A., the Sugar Division can come together and stop that. As it is now, we leave these little processors out with no legal place to buy sugar. I believe that will take care of that bootlegging angle.

The CHAIRMAN. Do you know why this 50 percent joker, I believe you referred to it as a 50 percent joker, was inserted in the clause which directs wholesalers to sell in equity?

Mr. CUSHMAN. Mr. Chairman, I think I do, and it does not reflect on chain-store men. My statement was that we could not convince our people—it was difficult to convince our people—I did not state that we felt the chain-store men wrote that clause. I think again it comes back to an effort on the part of the Sugar Division to stay out of the O. P. A. field, and they had no other recourse. They didn't favor the chain store any more than they favored the independent store, but it so happens that our grief came largely from the chain stores, because the chain stores have in the past, for reasons which I stated, sold most of this sugar to the small processors.

The CHAIRMAN. Why do you think that the sugar to these 10 restricted categories was not deducted from the present quotas?

Mr. CUSHMAN. Mr. Chairman, there may be reasons which the men in the O. P. A. can offer, to thoroughly justify that. I would prefer to leave that as it is, due to the injury which is involved in trying to give the reason for it having been left out.

The CHAIRMAN. You mentioned confused publicity. You said something would come out in the morning paper and a different story in the afternoon paper and an entirely different story the next morning. Can you give any example of that.

Mr. CUSHMAN. Mr. Chairman, I had in mind at that time a statement which came out of the O. P. A. or at least was credited as having come from the O. P. A. in the morning and in the afternoon a story came out contradicting the morning statement and the next morning the local division, the Rationing Division, which is set up by the Governor of the State of Massachusetts, issued a statement to the effect that they had been down to Washington and conferred with the O. P. A. and their statement was entirely contradictory.

The CHAIRMAN. Entirely what?

Mr. CUSHMAN. Entirely contradictory.

Mr. KELLY. Have you any excerpts of those statements?

Mr. CUSHMAN. I believe I have them.

Mr. KELLY. They are from different boards. You remember you said that you had given out one and the board had given out the other.

Mr. CUSHMAN. I was not—I am glad you mention that, because I was rather attempting to emphasize the importance of sugar to the population as a whole. I know that I did not particularly infer that conflicting statements were coming out of Washington, or coming out of the Department. There have been some, but what I tried to infer is that, for example, we tried to subscribe to a clipping service for sugar, and we had to cancel it because we did not have enough money to buy all the clippings, but I mean, I just want to emphasize the importance of sugar.

Now I have another illustration here if you would care to—

The CHAIRMAN. You mean about conflicts?

Mr. CUSHMAN. Yes.

The CHAIRMAN. Conflicting statements?

Mr. CUSHMAN. Yes, sir.

The CHAIRMAN. Briefly, you know we have got quite a program this morning. I would not like to take up too much time on a point that really does not help us much. You see, what has happened in the past—we have lots of experts around here to tell us exactly what should have been done, but I think we should look to the future right now.

Why, in your opinion, was a wholesaler left with the liberty of selling to manufacturers more than the stipulated quota?

Mr. CUSHMAN. It would just be my opinion, but I can say that it was probably due to the fact that the Sugar Section felt they did not want to go too deeply into this policing of the users. That would be my only explanation, but I feel that they are going to have to do it.

The CHAIRMAN. You mentioned about a one-man authority in your statement. Why would you advocate a one-man authority for sugar and would not advocate a one-man authority for flour or any other important food commodity?

Mr. CUSHMAN. Well, our opinion would be that sugar, being an imported product, and being handled by several departments of the Government, new agencies, and being so important to the public, it seems to us that there are unnecessary delays that we can only attribute that to the fact that these departments cannot get together and decide, and there is not one who says you have got to do it.

The CHAIRMAN. Any other questions, gentlemen?

Mr. KELLY. Mr. Chairman.

Mr. Cushman, I would like to refer to the portion of your statement on page 3 regarding the bootlegging of sugar up in the New England States. I notice you state the price seems to be around \$10 per hundred, is that the actual fact, that it is \$10 a hundred, or is it below that?

The reason that I call your attention to that, sugar today in Chicago is \$6.50 a hundred, and did your association call the thing to the attention of the War Board about the bootlegging of sugar up there, and the exorbitant prices you have to pay for it?

Mr. CUSHMAN. The association has not.

Mr. KELLY. Don't you think it should have, if you have that condition existing?

Mr. CUSHMAN. Well, we have been pretty busy—

Mr. KELLY. I know, but here is a case—

Mr. CUSHMAN. You have to run those down and prove them, but it is common knowledge—

Mr. KELLY. That is what I am trying to find out, is there the knowledge that this bootlegging is going on, or exorbitant prices are being paid up there and still the association that you represent has not called it to the attention of those in charge of it here? Why, naturally it is pretty hard for a Board that has just been established, to go all over the country and run each single case down, and without the assistance of our people involved, it is quite hard for a Government agency in this set-up at the present time to run those cases down.

Mr. CUSHMAN. Well, the answer to that is, here is a man who runs a restaurant, and he cannot buy his sugar; he is going to have an awful lot of trouble to keep his doors open if he does not have sugar. I personally would not want to interfere with him getting that sugar.

Mr. KELLY. Well, I think we are right well entitled to know, and also some Government agency in charge of this should know if such conditions prevail, otherwise, why, they will just keep on violating those rules and regulations if nobody interferes or stops them, and that is what we are here for, to secure authentic information along those lines, and to find out whether or not the government agencies are cooperating.

Mr. CUSHMAN. I will make a suggestion, if the Legal Department of the W. P. B. were in a position to give relief to those individuals who are buying sugar, bootlegging sugar, why then I should be glad to report anything that comes to our attention, but if they are not, if they say there just isn't anything we can do for you, why, I would not feel justified in reporting.

Mr. KELLY. Well, of course, they cannot do anything any more than we can unless they have justifiable complaints.

Mr. CUSHMAN. The point I am emphasizing and you are emphasizing, is that they should stop the bootlegging.

The CHAIRMAN. Mr. Cushman; isn't it a fact that the fellow that is getting the sugar needs this sugar to keep his business going and that he does not want to report it, he does not want to be a witness because the source of supply would be cut off and his business would probably have to close, and he is willing to be imposed upon or to pay the higher prices, knowing it is wrong, knowing that it is illegal and everything else, in order to keep his business going?

Mr. CUSHMAN. That is right, Mr. Chairman, and I am glad that you brought that out, because I could not conscientiously interfere with that man getting sugar. I certainly would not report him.

The CHAIRMAN. Does the Sugar Section have representatives in Boston?

Mr. CUSHMAN. The War Production Board have sugar men, or they have something to do with sugar in their department, but it is not—

The CHAIRMAN. Excuse me, Mr. Kelly, go ahead.

Mr. KELLY. That is all.

Mr. FITZGERALD. You mean to tell me that as head of the small business organization you know that there was bootlegging going on and that you would not report it to the proper authorities? How do you expect you are going to right it?

The CHAIRMAN. Mr. Cooke tells me it was reported.

Mr. FITZGERALD. He just testified that he would not report it.

I come from New England. At Christmas time I was home and they tried to charge my wife 10 cents a pound for sugar and she immediately complained to her grocer that she was going to report it, and immediately they said a mistake was made in sending out her bill charging that much. She bought sugar for 7 cents a pound.

Now it is a correct statement, in my opinion, to say that you, as a representative here of a group, are encouraging bootlegging by not reporting it.

There is another question I would like to ask you. What has been done about the wholesaler who orders his quota for sugar and then refuses to distribute it equally among his customers?

Mr. CUSHMAN. Oh, it is distributed, so far as I know he does distribute it equally since that equity clause was put into that amendment.

Mr. FITZGERALD. When did that go in?

Mr. CUSHMAN. On January 24.

Mr. FITZGERALD. I have got a complaint now in my office that it is not, and that for the January quota this customer did not receive his quota at all from the wholesaler, although he had been doing business for 15 years with him.

Mr. CUSHMAN. Well, we have had complaints, and in one case we called up the wholesaler and went to see him and it was simply because he did not know that clause was in that order. As soon as it was explained to him we have not found any wholesaler who refused to go along on that, and so far as that phase of it is concerned, that is pretty well done away with in our district.

Mr. FITZGERALD. There is some complaint that you mentioned here in your testimony today that the different months ought to be balanced. This man that I am speaking of is a constituent of mine, and he makes ice cream, and he complains where his quota was cut down in January and February, he did not even receive his January quota from the wholesaler, and in my opinion the wholesaler was hanging onto his sugar to sell it to somebody else at a higher price. That is the thing we want to correct, in my opinion, to permit him to get his quota.

Mr. CUSHMAN. That was modified on January 24 in the amendment to M-55 which came out —

Mr. FITZGERALD. It is not the War Board, it is the Price Administration that sets the price for sugar.

Mr. CUSHMAN. It is.

Mr. FITZGERALD. That is lower than 10 cents a pound.

Mr. CUSHMAN. Not to the retailer, the retailer can sell sugar for anything he wants to sell it for.

The CHAIRMAN. Does not that make the purchaser equally as guilty as the seller?

Mr. CUSHMAN. I cannot answer that, sir.

The CHAIRMAN. Even if it did, it would be hard to prove, just two people.

Mr. CUSHMAN. It would be a compliance case, under the law it would have to be proved.

The CHAIRMAN. All right, Mr. Fitzgerald, excuse me.

Mr. FITZGERALD. That is all.

Mr. KELLY. The price was set by the Price Administration. Did these violations occur after that price was set or before?

Mr. CUSHMAN. I cannot even say. You are talking now about the so-called bootlegging?

Mr. KELLY. Yes.

Mr. CUSHMAN. I cannot even say that bootlegging came under the price—

Mr. KELLY. Well, does it exist at the present time?

Mr. CUSHMAN. Yes; but it may not be wholesale sugar, it may be retail sugar.

Mr. KELLY. It does not make any difference. Do you know that it exists now?

Mr. CUSHMAN. There is no retail price ceiling. You can sell at retail for any price you want.

The CHAIRMAN. Is that true?

Mr. KELLY. I don't think so. The retail price is always ascertained on the wholesale price.

Mr. CUSHMAN. No.

Mr. KELLY. So, if the people are paying 10 cents a pound for sugar, it is not the distributor, it is the retailer that is responsible for that condition.

Mr. CUSHMAN. Perhaps I might clear up something—perhaps I improperly used the term "bootlegging."

Mr. KELLY. I don't think you have, if you do pay 10 cents a pound for sugar.

Mr. CUSHMAN. What I meant by this was that there was sugar out there in 100-pound quantities which a man in distress can get. Now, I don't know but what that sugar was purchased by some private individual before M-55 came into existence. It may not be called wholesale sugar.

Mr. KELLY. I think, as representative of your association you should have those facts.

Mr. CUSHMAN. But you cannot run down every one.

Mr. FITZGERALD. Do you believe that the price of sugar to the consuming public should be fixed? What protection do they have?

Mr. CUSHMAN. They have no protection that I know of.

Mr. FITZGERALD. Well, with this bunch of bandits going out and getting 10 cents a pound or 12 cents a pound or whatever they can get, when people who cannot hoard it can only go out and maybe buy a pound or two, what protection would that person get? Are you going back to the World War position of 20 cents a pound for sugar for the poor?

Mr. CUSHMAN. I think if anything, that the Price Administrator ought to fix the retail price, the price of the retail seller so that sugar—so that the consuming public will be protected.

The CHAIRMAN. I thoroughly agree with you on that. I am compelled to go for a conference that I cannot miss, but Major Bulwinkle will preside. I would like to ask Mr. Bowman, before I leave, is the retail price of sugar fixed?

Mr. BOWMAN. No; it is not.

The CHAIRMAN. Why is that? I cannot understand that. Off-hand it does not seem just right.

Mr. BOWMAN. That is a problem for the O. P. A.; but I should assume they have the relative competitive situation which has always

existed on sugar, so many independents and chain stores using it as "loss leaders" to keep the price down.

The CHAIRMAN. Now that does not make sense at all. Talk about inflation and keeping down prices, it looks to me like it is an incentive.

Mr. BOWMAN. That is an O. P. A. problem. I cannot answer that.

The CHAIRMAN. You just don't have anything to do with it?

Mr. BOWMAN. No.

The CHAIRMAN. Is there an O. P. A. man here?

Mr. BOWMAN. No.

(Whereupon the chairman left the hearing.)

Mr. BULWINKLE (acting chairman). Give your name and position to the reporter.

Mr. BOWMAN. A. E. Bowman, Chief of the Sugar Section, Food Supply Branch, War Production Board.

Mr. BULWINKLE. Now, sir, do you wish to make any statement?

Mr. BOWMAN. I have a statement prepared here. I was asked to prepare it, which may help in questioning. So I will read that, if you don't mind.

Mr. BULWINKLE. Yes, sir.

Mr. BOWMAN. This deals with when I came here, and briefly states that—

Mr. BULWINKLE. All right, go ahead.

STATEMENT OF ARTHUR E. BOWMAN

Mr. BOWMAN. On or about December 19, Sidney Weinberg, assistant to Donald Nelson, of the War Production Board called Mr. Harold Finch, president of the Nash-Finch Co., and at that time my employer, asking him to loan me to the War Production Board on a dollar-a-year basis in Washington, to take charge of the newly issued sugar conservation order M-55.

At that time I told Mr. Finch and Mr. Weinberg that I would not care to come to Washington on a dollar-a-year basis, but, if after going to Washington and talking with Mr. MacKeachie, then the Director of Purchases, who supervised the Food Supply Branch of which the Sugar Section is a part, it was felt by War Production Board officials that they wanted me to administer this order, and as a Government employee, I would do it.

After visiting with Mr. MacKeachie in Washington, it was agreed that I would come under those terms. I returned about the 27th of December to take charge of my new duties. At that time there were some 15,000 papers, including telegrams and letters from affected receivers under the order, some asking for interpretations of the order, and some asking for relief. There was no organizational set-up to handle this mail, administrative problems, or any other functions of the Sugar Section. So immediately we set about getting an organization together. On January 7 we had about 7 people, including my assistant Mr. Thomson; on January 14 we had about 20 people; as of the present time, we have a personnel of about 90 people, which is about as rapidly as we could take them on and properly train them to handle this work.

The original M-55 issued December 13, 1941, froze all sugar in the hands of users and dealers in excess of a 60-day supply, and used for its

base period for allocation purposes the corresponding period in the year of 1940. I want to point out that receivers under the terms of the order do not go below the wholesale level. It soon became very apparent because of population shifts, new businesses, expanding businesses, and the going out of business on the part of some people, that it was much more practical to use as the base period 1941, the percentage to be determined on a periodical basis subject to our supply surveys from time to time. Obviously, you will see that we had the problem of taking care of many callers at the office, as well as a flood of correspondence and wires which had accumulated before our arrival, plus the fact that it was necessary to get out a new M-55 making as many improvements as possible under the existing order.

I do not mean to criticize the original M-55 in any way, as personally I think it was a good order in view of the haste in which it was drawn up, and the necessity for the order at that time certainly cannot be doubted. M-55 as amended January 24, 1942, was effective February 1.

The things mentioned above are purely administrative details, but I think it will tend to show the volume of detail that we have been forced to handle, in addition to looking forward to a general over-all policy to be established for the future in the light of our supply situation from time to time. For example:

1. We have requested the Defense Supplies Corporation on numerous occasions to move frozen stocks of sugar from one point into an area of distress.
2. We are working very closely with the War Shipping Administration in order to facilitate a larger movement of sugar from Cuba into southern and Gulf ports. We have submitted proposals to the War Shipping Administration developing the use of barges through the inland coastal waterways into the Northeast.
3. We have requested the Interstate Commerce Commission to ask for substantial reductions in freight on the movement of raw sugars from Florida and the Gulf areas, north.
4. We have asked and received permission from the Defense Supplies Corporation to move western beet sugar into distressed areas in the Northeast.
5. We have proposed that these plans be put into effect immediately and for just so long as they do not interfere in any way with defense efforts that may be considered more vital.
6. We are proposing standards for rationing to both industrial users and consumers so that the program of the Office of Price Administration and the War Production Board will be correlated at such time as rationing is inaugurated.
7. We have set up advisory committees of the cane-sugar refineries, the beet processors, and have worked very closely with other industry advisory committees set up by the Food Supply Branch of the War Production Board.
8. In the interests of coordination of the many governmental agencies interested, Mr. Donald Nelson, about 3 weeks ago, wrote a letter to the Defense Supplies Corporation, Office of Price Administration, Department of Agriculture, Department of State, Board of Economic Warfare, Department of Commerce, United States Maritime Commission, and Department of the Interior, requesting each agency to nominate a member of a board to serve as an interdepartmental

coordinating group to facilitate more prompt action and unify the efforts of all governmental agencies interested. Mr. Nelson requested I serve as Chairman of the Board. This Board is a policy board without authority, but we believe it will be helpful in expediting our program.

I have referred briefly to most of the major factors which confront us, all of which are very time consuming, and I hope that we are headed toward competent administration of this problem. I will be glad to answer any questions that I can if the committee desires.

Mr. BULWINKLE. Mr. Bowman, it looks like you have done pretty well, except that you have left out something.

Mr. BOWMAN. I expect I have.

Mr. BULWINKLE. And that is this, that on the 24th day of February we had an executive session of this committee at which you were present.

Mr. BOWMAN. That is right.

Mr. BULWINKLE. And I called at that time your attention to subsection 3 (c).

Mr. BOWMAN. Yes.

Mr. BULWINKLE. I asked you if you were satisfied with that and my recollection is that your reply was that you were not.

Mr. BOWMAN. That is right.

Mr. BULWINKLE. I asked you what you were going to do about that and you said that the Board was considering it for the purpose of seeing what could be done.

Mr. BOWMAN. That is right.

Mr. BULWINKLE. And the same thing also applied to D and in some measure to 5 (d), 1 (d) to 5 (d), 1, 2, and 5 (d) at that time.

Mr. BOWMAN. That is right.

Mr. BULWINKLE. What have you done about that to correct these abuses that could be corrected?

Mr. BOWMAN. Major, I want to point out again, that administratively we have been pretty much hamstrung because of lack of space and of people.

Mr. BULWINKLE. I realize that. We all are administratively now in a fix.

Mr. BOWMAN. That is right. On March 6 we issued a press release saying substantially the following:

The Sugar Section has concluded under the supervision of A. E. Bowman, Chief of the Sugar Section, an exhaustive study of the world sugar supply—

Mr. BULWINKLE. These men were after a New England supply at that time, they did not care about the world supply.

Mr. BOWMAN. That is right—I want that release showing that section C-3 here—as I told you at that time, Mr. Chairman, we had anticipated rationing at an earlier date. When rationing was instituted—is instituted—of course, that stopgap will be plugged, so to speak.

Now we issued—I suggested to our Legal Section that we issue an order and after consultation with other people in the agency, it was determined that rationing would probably be effective April 1, and at that time O. P. A. would naturally handle everybody below the wholesaler level, and therefore we felt that if we did issue an order at this later date it would tend to confuse the division of authority—that is, if O. P. A. was going to handle the retailers, and we issued an

order saying that they have to do certain things, it would confuse them between O. P. A. and War Production Board.

Does that answer your question?

Mr. BULWINKLE. No. Your M-55 would still be in effect anyhow, whether your rationing went in on April 1, wouldn't it?

Mr. BOWMAN. No, the M-55 would be in effect, but it would be modified because of the fact we will use sugar authorization certificates for those users that we still control from an allocation standpoint.

Mr. BULWINKLE. I know, but suppose we have another 2 or 3 months to continue before rationing goes into effect.

Mr. BOWMAN. Before rationing goes into effect?

Mr. BULWINKLE. Two or three months' interval before any sugar rationing goes into effect, there is an injustice being done.

Mr. BOWMAN. That is right.

Mr. BULWINKLE. And therefore I think that you or your outfit ought to clear it up and clear it up immediately.

Mr. BOWMAN. We have no authority to go below the wholesaler anyway.

Mr. BULWINKLE. Well, somebody is going to have to have some authority in this. If the wholesaler is selling his sugar to a fellow who is not fair about it he ought to stop it. Something ought to be done.

Mr. BOWMAN. Why, I might read this. This is the directive—the delegation of authority to the Office of Price Administration with respect to rationing [Reading]:

The Office—

this is paragraph A—

The Office of Price Administration is authorized and directed to perform all functions and exercise all power, authority and direction conferred upon the President by section 2 (a) of the act of June 28, 1940—

well, probably that is not the part you want—

with respect to the exercise of rationing control over (1) the sale, transfer or other disposition of products by any person who sells at retail to any person, and (2), the sale, transfer or other disposition of products by any persons to an ultimate consumer.

That is part of the directive as issued by Donald Nelson of the War Production Board.

Mr. BULWINKLE. Yes; now speaking of your wholesalers that you do have something to do with.

Mr. BOWMAN. That is right.

Mr. BULWINKLE. Now paragraph 5 of section (d), applies to wholesalers and I have used in my illustration a wholesaler who sells to the Army, sold to the Army last year, and you said that has got to be corrected. He is now going to sell to the Army and he is getting an unfair competitive advantage on account of the amount he received last year.

Mr. BOWMAN. I pointed out to you at that time the same situation exists, this is an administrative matter. It is difficult the way we are set up. By that, I mean we don't have enough people, and we don't have the compliance to handle all that.

Mr. BULWINKLE. I realize that, Mr. Bowman, it is pretty hard administratively, but at the same time that was a legal proposition and you said your attorney was working on it.

Mr. BOWMAN. That is right, he has been working on it.

I want to go back to your other question, Major, if you don't mind.

Mr. BULWINKLE. All right.

Mr. BOWMAN. On March 5 we, after consulting about your question on C (3) or D (3), issued this wire to all trade associations and practically everyone else we could think of [reading]:

According to information received here many small industrial users of sugar not directly limited by order M-55 have been purchasing excessive quantities in anticipation of rationing. This action if not stopped will seriously enhance difficulties of getting rationing plan into operation. Under present order M-55 receiver would be warranted in restricting buyers from him to quota of 1941 purchases in same manner as he himself is restricted. Receiver who disables himself from serving some customers by excessive sales to others violates clause C3 of the order. Assistance of your association in calling this fact to attention of trade or in any other possible way discouraging excessive purchasing known to you would greatly assist the Government in present difficult period.

Now that was as far as our judgment at that time would permit us to go.

Mr. BULWINKLE. Well, I feel this way, and I am satisfied that every member of the committee feels the same as I do about it, that if there is an abuse, that abuse should be corrected by somebody in authority, and it should be done immediately. Now if you are going to do that, well and good, but if you think that you cannot do it, then there must be some other kind of action taken to do it.

Mr. BOWMAN. We intend to do it, of course, Mr. Chairman, but as I pointed out, the only reason that the order was not issued, as I told you the last time I was before your committee, is because we thought that rationing would be in effect April 1. If it was there was no need of confusing—I mean, the loss that occurred between that time and now, we did not want to confuse these difficulties, the people that are going to be handled by O. P. A. as against those of the War Production Board.

Mr. BULWINKLE. I just want to ask a few questions because you are familiar with the sugar proposition, so that we can have them in the record. What was the consumption of sugar in this country last year?

Mr. BOWMAN. There were distributed about 7,500,000 tons; that is, distributed—that is not consumption. That includes hot stocks, frozen stocks, and so forth. The consumption is roughly estimated at approximately six, eight.

Mr. BULWINKLE. 6,800,000?

Mr. BOWMAN. That is the estimate—well, the estimate as to consumption varies. Mr. Nemir, our economist, estimates the consumption at seven, four. Some estimate it at less.

Mr. BULWINKLE. Now what part of the sugar last year went into industrial alcohol?

Mr. BOWMAN. A rather small part, one million three of the Cuban crop in 1941.

Mr. BULWINKLE. Is that the only sugar that went into industrial alcohol, that is, the Cuban crop?

Mr. NEMIR. It is, last year.

Mr. BULWINKLE. Just the Cuban crop?

Mr. NEMIR. Just the Cuban crop, the major portion for alcohol sugar, and high-test molasses.

Mr. BOWMAN. For what year?

Mr. NEMIR. For 1941.

Mr. BULWINKLE. What do you estimate is the amount of sugar that will be used in 1942 in industrial alcohol?

Mr. BOWMAN. I am told 700,000.

Mr. BULWINKLE. How much sugar do you estimate that you will have on hand for 1942, that is, in sight?

Mr. BOWMAN. We don't know, there are available supplies in the world, ample sugar, if we can get them here. With our present rate of importation, plus our domestic crop, there are between six and a half and seven million tons, including the sugar used for industrial alcohol, if it is made available, that is, shipping enters into that.

Mr. BULWINKLE. Where will you get the most of that sugar from, in imports?

Mr. BOWMAN. Cuba.

Mr. BULWINKLE. How much do you estimate you will get from Cuba?

Mr. BOWMAN. There is available 2,200,000 tons for us plus—well, it would be two million five, two million seven, plus the 700,000 tons to be used for industrial alcohol.

Mr. BULWINKLE. I see. In all there is about 3,500,000 tons of Cuban sugar, including industrial alcohol.

Mr. BOWMAN. That is available; yes.

Mr. BULWINKLE. Yes.

Mr. BOWMAN. That is subject to variation.

Mr. BULWINKLE. What trouble, if any, do you have in getting this Cuban sugar in?

Mr. BOWMAN. Well, our trouble is that the ships in the trade usually have gone from southern ports in Cuba to north of Hatteras, and due to the submarine activities—

Mr. BULWINKLE. Does that Cuban sugar largely go to Philadelphia and Boston refineries?

Mr. BOWMAN. The major portion of it will. Due to submarine activities, of course, those boats, many of them have stopped running up there, and there have been some sunk, as you have read in the papers.

Mr. BULWINKLE. You have had about two or three sinkings, I think.

Mr. BOWMAN. Well, I don't know the exact number, but there have been several—there have been some, rather.

Mr. BULWINKLE. I know that. You have taken steps trying to bring the Cuban sugar in, have you not, importation by boat now from Cuba?

Mr. BOWMAN. Some which formerly went into the Gulf area and some to Savannah.

Mr. BULWINKLE. Well, that Cuban sugar, of the 3,500,000 tons, what part have you allocated to England out of that?

Mr. BOWMAN. Five hundred and ten thousand short tons.

Mr. BULWINKLE. And that is going to be given in exchange for sugar which has been already assigned to Russia?

Mr. BOWMAN. No, not all of it, only about 60,000 short tons, is that right? About 60,000 short tons of it is the sugar that the British have already given Russia, which we are replacing.

Mr. BULWINKLE. So that, so far as the United States is concerned, we have 3,000,000—about 3,000,000—no, 2,900,000 tons of Cuban sugar for use, including the 700,000.

Mr. BOWMAN. No; we have two, two, and we have about three, four. That includes—here, I will read this Cuban allocation for you—this is a summary giving the Cuban situation—1942, short tons, raw or flat stocks as of January 1, 1942—this is in Cuba—240,000 short tons. The 1942 production, 4,430,000 short tons, total supplies four million six. That is in Cuba.

Reservations under the purchasing agreement, Cuban local consumption 227,000 tons, high test for use in Cuba, 136,000; for export other than United States and United Kingdom 74,000; reserve for United States alcohol in the form of high test molasses, 700,000 tons, in the form of sugar, 227,000 tons; reserved for the United Kingdom, 510,000, which makes a total of 1,810,000 for those purposes out of the quantity available. If more grain was used for manufacturing alcohol—wait a moment—maximum available, both assumptions, 2,225,000 tons, that is less—that does not include industrial alcohol.

Mr. BULWINKLE. All right. How much are you getting from Puerto Rico?

Mr. BOWMAN. There is available about 1,100,000 tons. That is available. How much we get depends on shipping.

Mr. BULWINKLE. Well, let me ask you this has there been any order issued further restricting sugar to soft drinks?

Mr. BOWMAN. There has not been any order issued further restricting industrial use of sugar on any classes of industrial users as yet.

Mr. BULWINKLE. Well, do you contemplate, and the reason I am asking you that is because I think every Member of Congress probably has had some telephone calls saying something about the War Production Board increasing the allotment for bakers and confectioners and that they had reduced it, or were going to reduce it to the bottlers.

Mr. BOWMAN. We have contemplated several plans, standards of allocation, setting up allocations for industrial users, but we have not arrived at any decision.

Mr. BULWINKLE. Any conclusion yet?

Mr. BOWMAN. That is right. We will, however, in the next, I would say, few days. That has to be worked out with the O. P. A., because they are very much interested, of course, because they will ration to industrial users below the wholesale level, so that we have to have our standard in agreement with them, and civilian supply.

Mr. KELLY. Mr. Chairman, I am just a little anxious to find out about the authority vested in the Sugar Board.

Mr. BOWMAN. About the authority what?

Mr. KELLY. Well, you maintain you have no authority whatsoever in the setting of prices, how do you make these recommendations?

Mr. BOWMAN. We don't. The price fixing—the O. P. A. have full authority for that. We have no authority on that.

Mr. KELLY. Don't you even make recommendations to them on that?

Mr. BOWMAN. No; our section deals entirely with supplies, that is our major problem. We do, however, allocate—we have, however, allocated the supplies from primary distributors, which are the refiners, to receivers, which are people buying from refiners only. In addition to that we have allocated the entire supply of sugars, the world supply of sugars that are available to refiners, that is raw sugars, both domestic and off-shore.

Mr. KELLY. I guess that is what I want.

Mr. BULWINKLE. I meant to ask you, and I forgot it, about the corn-sugar products; how much do you estimate is the production of that?

Mr. BOWMAN. Corn sugar, roughly one-half million tons.

Mr. BULWINKLE. Well, do you anticipate an increase in that this coming year, 1942?

Mr. BOWMAN. We have a new Corn Sugar Unit in the Food Supply Branch to deal with that problem. Now the Sugar Section, which I have charge of, does not have anything to do with the corn sugar as of today.

Mr. BULWINKLE. Who is that?

Mr. BOWMAN. Mr. Staley.

Mr. BULWINKLE. Well, is it true that you have established who should use corn sugars in allocation or not?

Mr. BOWMAN. We had contemplated earlier getting out a corn-sugar order but for the same administrative difficulties that I told you about, it was just impossible to handle the job that we have. I realize that is a rather weak statement, but, nevertheless, it is the fact.

Mr. BULWINKLE. Somebody is going to have to get some orders out, then.

All right, that is all I care to ask you about.

(Mr. Bowman excused.)

(Additional questions submitted in writing to Mr. Bowman and answers thereto:)

1. As Chief of the Sugar Section of the War Production Board who is your immediate superior?

Answer. Mr. Douglas C. Townson.

2. When the amendment of January 24 to the sugar order M-55 was being considered, what persons were consulted? What were their official or unofficial connections?

Answer. Mr. Douglas C. Townson, Chief of the Food Supply Branch; Mr. John McCarthy, Chief of the Bakers Section; Mr. Logan Morrill, Assistant Chief of the Food Supply Branch; Mr. Chapin Weed, Assistant Chief of the Food Supply Branch; Mr. W. L. Petriken, Consultant for the Sugar Section; Mr. Gubin, Division of Civilian Supply; Dr. Roland S. Vailo, Division of Civilian Supply; Mr. Arthur Becker, Attorney for the Food Supply Branch; Mr. Rowe and Mr. Howard Weeting of the Office of Price Administration; Mr. John Baxter of the War Production Board, Chief of the Cannery Section, and the Canning Industry Advisory Committee were consulted. This and other advisory committees consist of unpaid members of the industry who are organized by the War Production Board to advise it concerning action affecting their industry.

(Informal discussions with members of the Cane Sugar Advisory Committee. Mr. Cushman and Mr. Richard C. Cooke of the Smaller Business Men's Association of New England.)

We of course held informal discussions with other people from the trade who from time to time came into our offices on questions arising under the original order.

3. Did any of these individuals have manufacturing experience?

Answer. Yes, several.

4. Was the opinion of any small business unit sought?

Answer. Yes.

5. The New York Times of February 19, 1942, carried a story purporting to have emanated from the Office of Price Administration and the War Production Board, concerning the allocation of sugar to various industrial users in five classifications, with varying percentages of allocation to each class. The committee has been informed that you subsequently stated that this published report was "premature and erroneous." Did you release this information to the press? Who did? Were you consulted concerning the release of that information?

Answer. I did not release any information to the New York Times or any other of the press relative to the classification of industrial users in five classes, nor did I release any similar story. I did state that the report was "premature and erroneous"—that there were several plans under discussion at the time. Those plans, of course, now have been turned over to the Office of Price Administration and they will be responsible for the rationing of sugar to industrial users. I do not know who did release this information. I was not consulted.

6. Don't you believe, Mr. Bowman, that with such an important problem as the sugar situation the only way in which an equitable distribution and a whole-hearted public support of the program can be maintained is by a coordinated effort in connection with the publicity by governmental agencies?

Answer. Yes.

7. Was your division ready for rationing on March 1 or thereabout?

Answer. Our section was ready to perform its part of the rationing task as tentatively agreed upon with the Office of Price Administration on March 1.

8. The committee is informed that the regional offices of the War Production Board are not able to interpret the sugar order M-55, and are consequently unable to give adequate attention to the problems of the small business units concerned with this matter. Why is this so?

Answer. Until now the regional offices of the War Production Board have not been staffed with attorneys. The interpretation of the War Production Board orders is regarded as a legal function to be performed by attorneys. Inquiries made by regional offices have been given prompt attention and every assistance possible has been given them in performing their tasks.

9. Why were the canners allowed to purchase all the sugar they could use, when other manufacturers were restricted to an amount which was 80 percent of 1941 usage?

Answer: An over-all 80 percent cut was recognized as not feasible for the canning industry. Sugar is necessary for canning and an arbitrary cut might result in spoilage of food, which would not be conservation. Under the Tin Plate Conservation Order, M-81, the canning of some foods is unlimited, while others are heavily cut, much more than 80 percent. Because of the requirements of the Army, Navy, and lend-lease, the pack of some foods must be larger than normal. With most canned foods, the proper conservation method is to cut the sugar used per can or per case. Obviously it was necessary to collect detailed information relative to the amount of sugar normally used in canning and preserving of the various grades and sizes of the pack. This information was not readily available and because there was no canning at that season of the year, with the exception of a small amount of citrus fruits it was felt by those administratively responsible for the order that we would not lose any material amount of sugar by leaving the canners problem open until this information could be obtained. A plan to cut sugar use by canners considerably below 80 percent has since been completed and turned over to the Office of Price Administration.

10. What attempts have you made to have frozen sugar moved into distressed areas? (The committee was informed by Mr. Goodloe of the Defense Supplies Corporation that they had purchased and moved 40,000 tons of this stock and were in the process of moving another 45,000 tons at the moment.)

Answer: We have made several attempts. We have moved 40,000 tons of raw sugar from the Pepsi-Cola Co. into New York refineries to be made into sugar for local consumption. We have moved something over a million bags of Coca-Cola sugar to areas of distress. We are moving off-shore sugars into distressed areas.

11. Have you been able to get a technical staff and other advisers sufficient to enable you to solve many of your problems?

Answer: Individuals composing my technical staff are extremely able. Owing to space problems there are not enough of them.

12. What have you done to get sugar into this country from off-shore areas?

Answer: We have laid plans and are developing other plans with the War Shipping Administration, Defense Supplies Corporation, and other interested governmental agencies to get sugar into this country from off-shore areas. We have received a commitment from Defense Supplies Corporation permitting us to spend up to \$50,000 for the purpose of preparing the port at Port Everglades, Fla., to facilitate the shuttle service being developed by the War Shipping Administration, using small vessels which are not fit for trans-oceanic work to bring

Cuban sugars to this port and other southern ports to be transhipped either by rail or the inland coastal waterway into the northeast and other distressed areas.

13. When the January 24 amendment to M-55 was being written, was the question of including corn sugar and corn sirup discussed?

Answer: Yes.

19. What were the reasons why corn sugar and corn sirups were not included in this amendment?

Answer: Corn sirup and corn sugar are only two of a number of sugar substitutes. We needed to amend M-55 promptly and did not have a staff adequate to obtain the information necessary to include sugar substitutes in the order, nor to handle the administrative problems that would subsequently arise if they were included. Moreover, I am informed that there is at present no shortage of corn sirup or corn sugar.

20. Do you believe that there is a need for a one-man sugar-control authority?

Answer: Yes. But in expressing this opinion I am speaking for myself only. The views of other officials may be different.

Mr. BULWINKLE. Do you care to make any statement, Mr. Townson?

Mr. DOUGLAS C. TOWNSON. No statement. My responsibilities are the over-all food problem. Sugar is just one section under that.

Mr. BULWINKLE. Did you have anything to do with this particular Sugar Section?

Mr. Mr. TOWNSON. Yes, sir; this has just been set up within the last 2 weeks, and an order is now in process of being written.

Mr. BULWINKLE. When are you going to have that order out?

Mr. TOWNSON. As soon as we can.

Mr. BULWINKLE. Got to have a little speed around here, you know.

Mr. TOWNSON. I know it.

Mr. BULWINKLE. All right. Do you gentlemen want to ask any questions of Mr. Townson? (No response.)

(Additional questions submitted in writing to Mr. Townson and answers thereto):

1. What authority do you exercise over the Sugar Section of the War Production Board?

Answer: I am Chief of the Food Supply Branch of which the Sugar Section is a part.

2. Did you suggest any portions of the January 24 amendments to M-55 sugar order?

Answer: I participated in a general discussion of a draft of the entire order which had been prepared by Mr. Becker. I do not recall having suggested any specific provision.

3. What line of business were you in before you came with the War Production Board?

Answer: In the preserving and canning business.

4. What are the reasons for the exemption made in (d) (5) classification (x) of the M-55 sugar order as amended January 24, 1942?

Answer: Substantially this same question has been put to Mr. Bowman and I agree with his answer. The clause to which you refer permits the sale of sugar to canners without regard to quota limitations to furnish supplies to enable them to pack fruits or vegetables. Sugar is necessary to pack these commodities and we had been advised that an increased pack of some of them would be necessary because of the requirements of the Army, Navy, and lend-lease. On the other hand, 80 percent of 1941 use would be too much for some other canners whose pack would be heavily curtailed by the tin plate conservation order then under consideration because the foods packed by them would be classified as secondary or nonessential. Obviously, it was going to be necessary to curtail the use of sugar by canners by saying in most instances that they could use so much sugar per can packed or per case. Detailed information which we did not have was necessary before such limitations could be imposed. At that time of the year the question was more or less academic because very few fruits and vegetables were being packed at that season. It was all along intended to have a plan of limitation ready before the peak packing season. A plan has been prepared by my

branch and turned over to the Office of Price Administration in view of the fact that Mr. Nelson has assigned control of the distribution of refined sugar to the Office of Price Administration. The effect of this plan, together with order M-81, will be to reduce use of sugar by canners to less than 80 percent of 1941 use.

5. Why are not corn sugar and corn sirup under the control of the Sugar Section?

Answer: There was no information or staff available at the time M-55 was drafted to exercise control over corn sirup and corn sugar through any section. Since that time a separate Corn Products Section has been formed.

6. How can you equitably distribute direct-consumption sugar without placing corn sugar and corn sirups under the same control and subject to the same restrictions?

Answer: Corn sirup sugar and corn sirup are only two of a number of sugar substitutes. All these substitutes differ more or less from cane sugar in the uses for which they are available and in their chemical composition. To attempt to bring under a single quota allocation sugar and sugar substitutes would create an impossible task of establishing equivalent values for the different materials. Moreover, the extent of shortage in the different substitutes is very unequal. Some substitutes, e. g., honey, are scarcer relatively than sugar. In the case of others, such as corn sugar and corn sirup, there is no shortage at all. It has therefore been determined to exercise control over the sugar substitutes separately from sugar to the extent rendered necessary by shortage and as personnel becomes available.

7. Have you been given any instructions from any source relative to the control of corn sugar?

Answer: No.

8. Do you believe that there is a need for a one-man sugar-control authority?

Answer: I believe there is need for an overall food administration under one-man control. But in expressing this opinion I am speaking for myself alone. The views of other officials may be different. The attention of the committee is called to the fact that Mr. Nelson has set up an interdepartmental Sugar Policy Committee of which Mr. Bowman is the chairman. All the departments and agencies concerned in the sugar problem are represented on this committee.

I would like to state that I have always recognized that there are bound to be some inequalities in the administration of order M-55, which is primarily intended to conserve the sugar supply and is not an adequate instrumentality to secure equitable distribution among the smaller industrial users who purchase from wholesalers or jobbers. I believe that when rationing begins under the Office of Price Administration, through their local boards, the distribution of sugar will be much more equitable and the complaints now being made will cease.

Mr. BULWINKLE. Mr. Becker.

Mr. BECKER. I will be glad to answer anything the committee wants to know. I might be able to straighten out some of these legal questions, if the committee is interested.

Mr. BULWINKLE. Yes. Please give your name and what position you hold.

Mr. BECKER. My name is Arthur M. Becker. I am now Assistant General Counsel of the War Shipping Administration. I was attorney in charge of the Food Supply Branch at the time these orders were drafted and I drafted them.

Now I think particularly with reference to section C (3), the War Production Board, under the directive issued by Donald Nelson and approved by the President, is merely charged—its authority ends at the wholesale level. Now what we were trying to do in C (3) was to regulate jobbers, we were not trying to get down below that level we had authority to regulate. Now we were confident of the fact that many people who are not in the jobbing business occasionally sell bits of sugar, lots of sugar, and we felt at the time that it was impossible to regulate those people, that is, the occasional jobber of sugar, who might be given an industrial user's rating and yet who once in a while

jobbed sugar, until a rationing plan was allocated, because they could only be regulated on the basis of an equitable distribution to the next level of purchasers. Him we had no authority to regulate.

On the other hand, the regular jobber could be regulated, because we could say "distribute all sugar equitably" but the intent was that, to someone who possibly made a sale once in 1941, there was no method of allocating the distribution on that one sale or two sales, and we could do that at the 50 percent level.

So what this C (3) really amounts to is a definition of a jobber.

I think on some of the other points that Major Bulwinkle raised, on the question of these deliveries not charged against the quota, such as deliveries to the 10 categories in section 5, what we did at the time this order was drawn was an attempt to devise an administrative procedure whereby the sugar sold to those categories within the last year would be deducted so that these people would not get an advantage.

Now, we came to the conclusion that it was impossible to do that administratively for this reason, a large part of this sugar was not sold in the categories, was not sold as sugar, it was sold, for example, as canned goods, it was sold as confections to the Army, it was sold to the trade. Now we made rather a complete investigation at the time and found that possibly, I would say 50 or 60 percent of the canners, who are large users of sugar who sold to the Army, did not know at the time they made their pack, or later, that their particular canned goods went to the Army, because they sold to jobbers, who in turn sold to the Army.

Mr. BULWINKLE. I know, but did you take that into consideration when you drafted this?

Mr. BECKER. Yes, we did.

Mr. BULWINKLE. Well, and this applied to sugar particularly?

Mr. BECKER. No, sir; this not only applies to sugar principally but it applies to anything, any product in which sugar goes. It would apply most largely to sales of food products to the Army and Navy.

Mr. BULWINKLE. Well, how do you estimate in the case of peaches? How much sugar is in those 24 cans of peaches?

Mr. BECKER. Well, you can estimate that very readily, how much sugar is in it. You see—

Mr. BULWINKLE. Well, isn't it a fact that that is the way it actually worked and wasn't that what your intention was when you drafted it?

Mr. BECKER. Yes, sir.

Mr. BULWINKLE. But doesn't it work out in this proposition of every wholesaler that sold 50 pounds of sugar to a farmer?

Mr. BECKER. That is right.

Mr. BULWINKLE. Last year. I am not talking about canned goods or anything else.

Mr. BECKER. That is right.

Mr. BULWINKLE. Well, I mean selling it this year and trying to get credit for that 50 pounds.

Mr. BECKER. That is right.

Mr. BULWINKLE. That is what I am talking about; I am not bothering about canned goods and stuff like that.

Mr. BECKER. It did work out that way, Congressman.

Mr. BULWINKLE. Don't you think that ought to be corrected?

Mr. BECKER. I do think it should be, Congressman. I think the only way it can be corrected is by rationing.

Mr. BULWINKLE. I think I could draft something and put it in there that would correct it.

Mr. BECKER. Well, Congressman, we tried to, but you see, we are confronted—this is an administrative problem. If we draft an order that is so complicated that the average person cannot come in and say that he can understand it—

Mr. BULWINKLE. Well, it would have been easy to have put a proviso in there that if any wholesaler sold to any Government agency last year, that that sugar would not be included.

Mr. BECKER. Well, you could have done that. With the sugar itself, that would have been possible.

Mr. BULWINKLE. I am talking about sugar.

Mr. BECKER. It would not have been possible with the other products.

Mr. BULWINKLE. I am willing to let the other products go.

Mr. BECKER. I see.

Mr. BULWINKLE. Now, then, let me ask you why did you exempt canners? There have been some complaints of that, and I just want it for the record, that they could have full quantity.

Mr. BECKER. The reason we exempted canners was—as a matter of fact I didn't, it was an administrative problem and while I did not draft the order, one reason canners were exempted was, we were told when we asked the question at the time, that it was essential in order to preserve the food products and prevent them from rotting. I was told that by the administrative officials.

Mr. BULWINKLE. By the administrative officials?

Mr. BECKER. Who had charge of the policy in the matter.

Mr. BULWINKLE. Do any of you gentlemen want to ask him any questions?

Mr. KELLY. Mr. Becker, you heard the statement of Mr. Cushman this morning?

Mr. BECKER. Yes, sir.

Mr. KELLY. Has that ever been brought to your attention or to the attention of the Sugar Board, about those violations existing in New England?

Mr. BECKER. No; I have not heard any statements of violations, but I have heard today in that case, many different opinions, Mr. Congressman.

Mr. KELLY. I beg your pardon—are you on the Board?

Mr. BECKER. No; I am not on the Board.

Mr. BULWINKLE. Anything, Mr. Fitzgerald?

Mr. FITZGERALD. No.

Mr. BULWINKLE. Thank you very much, Mr. Becker.

Mr. Tyre Taylor, a North Carolinian from my district.

Mr. Taylor, do you have a statement for the committee?

Mr. TAYLOR. Mr. Chairman, my name is Tyre Taylor, I am here as general counsel for the National Association of Retail Grocers.

Mr. BULWINKLE. Sit down, Mr. Taylor.

Mr. TAYLOR. Mr. Chairman and gentlemen, I have no testimony or presentation to offer. Our association does feel, however, that

this committee is rendering a highly constructive service in holding this investigation at this time. I think all I want to say is that on behalf of our association we wish to express to you, Mr. Chairman, and every member of the committee our very sincere appreciation.

Mr. BULWINKLE. Let me ask you this, have you had many complaints as to these sections of this particular M-55?

Mr. TAYLOR. I would not say that we have had a great many complaints.

Mr. BULWINKLE. You have had some.

Mr. TAYLOR. There are some, no great number, no considerable number have come to me.

Mr. BULWINKLE. Do you gentlemen care to ask him anything?

Mr. KELLY. Do you get all the sugar you require in your industry or do you have any difficulty getting it?

Mr. TAYLOR. I think there is no question but what there is considerable difficulty.

Mr. KELLY. They seem to be satisfied with what they are getting?

Mr. TAYLOR. No, sir; they are not satisfied, but there has been so much confusion concerning this whole subject, and they understand it so imperfectly that I think their main reaction at the moment is that they are grateful to this committee for trying to clarify the situation and getting the facts before the country.

Mr. FITZGERALD. What has the committee done so far? We have had meetings, but it is hard to get information from some people who have appeared before us at these hearings.

I think that you, representing the National Retail Grocers, certainly should receive some complaints if any there are, about the abuses with regard to our sugar situation. Do you mean to say that the National Retail Grocers are satisfied with the way things are going?

Mr. TAYLOR. No, sir; we do not wish to leave that impression at all.

Mr. BULWINKLE. I might state, Mr. Fitzgerald, Mr. Taylor said he had had some complaints.

Mr. FITZGERALD. Let us hear some.

Mr. TAYLOR. I am not prepared to appear and present those complaints. I will be glad to try to assemble information and make it available about them, if it is desired.

Mr. BULWINKLE. I think it would be, and I think you should try to be as concrete as you can, so that we can have something in front of us as to what the trouble is that you find all over the association, and then we will know.

Mr. TAYLOR. We will be very glad to do that.

Mr. FITZGERALD. I think this, Mr. Chairman, I know complaints do come to me from my constituents back home in regard to the sugar situation, and while these different agencies down here have been working on it as has been testified this morning, for several months we were very slow in finding some of the answers to this whole situation here. I am interested in the wholesaler that gets his quotas and then does not want to distribute it amongst his customers. He is the fellow I am interested in. I am interested about the average citizen that is going to purchase sugar here. I would like to have it explained why the price cannot be fixed for the retail price of sugar, a fair price.

Mr. BULWINKLE. It would be necessary to call Mr. Henderson for that.

All right, Mr. Taylor, thank you.

Mr. TAYLOR. Thank you very much.

Mr. BULWINKLE. Mr. Riley, secretary of the American Bottlers of Carbonated Beverages.

I understand that Mr. Riley will not appear, but he has submitted his statement.

(The statement referred to is as follows:)

AMERICAN BOTTLERS OF CARBONATED BEVERAGES,
Washington, D. C., March 17, 1942.

HON. WRIGHT PATMAN, M. C.,

Chairman, Select Committee to Conduct a Study and Survey of the National Defense Program in its Relation to Small Business of the United States,
House Office Building, Washington, D. C.

DEAR CONGRESSMAN PATMAN: There appeared in the New York Times under date of February 19, an item relating to administration of the sugar-conservation program of vital concern to the bottled soft-drink industry, which is typically small business among the food industries, since it outlines a program of sugar allocation which is highly discriminatory and unfair. The item is quoted below.

While this association, representing more than 2,300 plants engaged in the manufacture and distribution of bottled soft drinks, has been advised by Mr. A. E. Bowman, Chief of the Sugar Section, Food Supply Branch, War Production Board, that this published report was premature and erroneous, that does not eliminate the possibility some such plan of allocation of the available sugar supply may discriminate against and involve special hardships to the small businessman, which is the proper classification of the bottled soft-drink manufacturer.

It is because of that that we have directed a communication to the Honorable Donald M. Nelson, Chairman of the War Production Board, outlining our views on this important subject. We are attaching a copy of that statement because we believe it will be helpful to you in your consideration of the problems confronting small business under this program and request that it be included in the hearings of your committee.

Respectfully,

JOHN J. RILEY, Secretary.

[From New York Times, February 19, 1942]

Washington, February 18—Sugar allocations for industrial users for March will remain unchanged from last month at 80 percent of the amount used in the corresponding period last year, it was learned authoritatively tonight.

Officials of the Office of Price Administration and the War Production Board have about completed their work in drawing up the sugar rationing order which will be issued in the near future. Under terms of the program which was reported about ready the amount of sugar which industrial users will be allowed has been worked out. Divided into five classes, the industrial consumers are subjected to cuts of as much as 40 percent.

The divisions, and the amount which will be granted to each, based on their 1941 usage are as follows:

Class A. Meat products and frozen foods, no decrease.

Class B. Canned and dried fruits and vegetables, condensed and evaporated milk, dairy products except ice cream and ices, cut 10 percent.

Class C. Preserves, jams, jellies and fruit butters, pickled fruits, vegetable sauces and seasonings, salad dressings, ice cream and ices, bread and bakery products, cut 20 percent.

Class D. Confectionery, including chocolate and cocoa, grain mill products, vinegar and cider, cut 30 percent.

Class E. Ice manufacturing, all beverages, flavorings, extracts, tobacco and foods not previously mentioned, cut 40 percent.

It is understood that no reductions have been made in allotments for the armed services or for exports.

In a formal announcement, A. E. Bowman, head of the Sugar Section of War Production Board, said that copies of Form PD-279 are available for all "receivers" of sugar who are required to make a choice as to their source of supply under the terms of paragraph (f) of the Sugar Order M-55. After March 1 no receiver of sugar may accept deliveries from both primary and secondary distributors. Form

PD-279 will constitute the formal notice to War Production Board of the choice which is made, and is to be submitted before March 2.

The Sugar Division chief also issued a warning to wholesalers not to discriminate in the distribution of their supplies.

AMERICAN BOTTLERS OF CARBONATED BEVERAGES,
Washington, D. C., March 11, 1942.

HON. DONALD M. NELSON, *Chairman, War Production Board,*
Washington, D. C.

DEAR MR. NELSON: In connection with the sugar conservation program under general preference order M-55 (as amended) there is submitted the following:

STATEMENT ON BEHALF OF THE BOTTLED SOFT DRINK INDUSTRY, SUBMITTED BY THE AMERICAN BOTTLERS OF CARBONATED BEVERAGES, CONCERNING REPORTED PROPOSALS TO PLACE A LIMITATION OF SUGAR SUPPLY ON THAT INDUSTRY IN EXCESS OF THAT TO BE IMPOSED ON OTHER AMERICAN FOOD INDUSTRIES

THE INDUSTRY IS ESSENTIAL TO THE COMMUNITY AND THE PEOPLE

The soft-drink industry, as an aggregate, is one of the country's most important industries in volume of production (table I).

Yet, as separate units, it is small business (table II).

The industry is one which is local in character, since it consists of over 6,000 plants in approximately 3,000 communities and predominantly small communities (table III).

As such, it employs local people, patronizes local industries, pays local taxes, and otherwise participates in the life of these communities. Its aggregate employment exceeds many other food industries (table IV).

Its economic necessity to the community is demonstrated by the amount of added value it produces, principally representing local expenditures, and comparing most favorably with other food industries (table V).

Also dependent upon the industry are hundreds of thousands of small retail dealers for whom the sale of bottled soft drinks provides a substantial part of their livelihood. The industry's total outlets selling bottled soft drinks total over 1,000,000 (table VI).

Its ability to remain in business, and provide stable employment throughout the year, depends upon business volume during the summer peak period to provide the earnings which must compensate for operating losses during the colder slack period of the year.

Anything which adversely affects small business, and particularly the local, small, every day business in wartime, has a very serious effect upon community life and upon the morale of citizens in such communities.

The Government recognizes that the maintenance of citizen morale, and the providing of the common articles of food and simple refreshment, are vital to the war effort.

Consumers of bottled soft drinks are primarily the youngsters and wage earners of the Nation. They are preponderantly those in low-income groups, to whom many of the other sugar-containing foods are luxuries, but to whom the universal 5-cent soft drink is an economical and desirable article of every day consumption.

The ready accessibility and availability of soft drinks provide them with means for satisfying the natural needs of the body for liquids in palatable form, and thus encourages this desirable liquid intake so essential to health.

While soft drinks are in no sense a competitor with alcoholic beverages, they have long been recognized as promoting temperance and sobriety in the satisfaction of the body's liquid intake. The effect of serious curtailment in their production may have the opposite effect.

MORALE AND THE PRODUCTION LINE

Obviously the bottled soft drink industry is not one which can produce guns or tanks for the armed forces. Nor is its equipment adapted or its personnel trained for such purposes.

But its products have a definite place among those which are helpful to the war effort through their connection with morale, both military and civilian, and thus contribute materially to the maintenance of that effort.

The fact that sugar-containing food and drink used by the military and naval personnel are exempted from sugar restrictions under general preference order M-55 is evidence that the supply of such foods is essential.

With the reports being received by the Food Supply Branch of the War Production Board, but which can only partially cover the quota-exempt sugar used for that purpose, some tangible evidence of the extent to which soft drinks are so used is evident.

Maintenance of production schedules and the morale of industrial workers, especially those in plants engaged in the manufacture of military and naval matériel, equals the importance of morale in the military forces.

In his public utterances, War Production Board Director Donald M. Nelson has frequently stressed the importance of the army of industrial workers being considered by the Nation as the men behind the men behind the guns.

It is universally recognized that industrial production and safety are promoted where the employee avoids excessive fatigue. The occasional consumption of small items of food or drink, those which refresh or produce energy, is one of the important means of avoiding fatigue.

Employers favor the extensive distribution and sale of soft drinks in industrial plants. Containing sugar in a form readily assimilated by the system, they are energizing. Their very nature encourages the daily intake of water so essential to the well-being of the human system.

The latter purpose, particularly, is not fulfilled by solid foods; the workers' health demands liquids. Plain water would be a satisfactory answer but it holds no added attraction to the employee. The availability of a sweet, palatable beverage produces the refreshment he wants and encourages the consumption of the necessary liquid as no other beverage can. How many industrial plants allow beer to be sold to workers on the plant premises, and during working hours?

The consumption of soft drinks during working hours is deemed necessary by the employer because of vital concern with the preservation of employee health and morale. Satisfaction and interest in the job is promoted by measures tending to avoid monotony, to minimize fatigue, and to lessen the possibility of accidents.

CHANGES IN THE CONSERVATION PROGRAM SUGGESTED

The members of this industry are experts only in the manufacture and sale of their own products—soft drinks. The problems of sugar manufacture and supply are not within the scope of their job, so it is neither incumbent upon them nor can they be expected to speak with authority in matters relating to the determination of available sugar supplies, or the control or distribution of such supplies.

It can be safely said that, as an industry, full cooperation has been given to the War Production Board in the general effort to have the industrial users of sugar aware of, understand, and abide by the purposes of the sugar conservation order.

But, in the administration of such program, it is submitted the experience of the industry since the order was promulgated shows that a stricter control of the supply, and more equitable use of the available sugar supply, will accomplish a definite saving. This may be expected to serve the same purpose as any industrial rationing or allocation plan.

For example, the nonapplication of the "freezing" provision of order M-55 to inventories of less than 2 carloads in excess of a 60-day supply not only created serious inequities among industrial users, but seems certain to allow free use of an enormous quantity of sugar stocks (if not already used) which, if retained in inventories for quota purposes, would help much in avoiding later shortages.

Under the order, as presently written and administered, all industrial users are not under the same restrictions. Those who are "receivers" are definitely limited to their ability to receive and use sugar. Those who are not "receivers," and they constitute a substantial number in sugar-using industries of which small plants are typical, are not so restricted. They may purchase and use sugar without restriction, excepting the quota imposed upon their supplier in securing his stock.

Experience has indicated, however, that such suppliers (meaning wholesalers or other local distributors of sugar) frequently have been able to supply sugar to nonreceivers in quantities substantially in excess of the quota ratio imposed upon receivers in the same line of business. It appears to be a safe conclusion that such secondary distributors either have been allowed to retain salable inventory, or to receive a supply from primary distributors, which is in excess of that necessary to satisfy the needs of their 1941 sugar customers—using the quota ratio imposed upon other industrial users classed as "receivers" as the yardstick.

Some provision whereby the quotas of secondary distributors could be adjusted to avoid excessive supplies, and a definite requirement that sugar distribution to all industrial users be upon the basis of 1941 use, would seem to be helpful as a conservation measure.

For the same reason, some provision should be made to allow industrial users to purchase from primary distributors, even though they did not so purchase during 1941, as it would provide for a greater control of the sugar use, as well as promote a uniformity of supply.

Connected with the use of sugar by the soft-drink industry, it is important to note two essentials. First, it is necessary that the specific taste imparted by the flavoring constituents of the beverage, which is more easily affected or destroyed in a liquid product than in a solid one, shall be retained. Second, since the product is a beverage, it is required that ingredients providing excessive body shall not be used. Both of these basic principles of beverage manufacture limit the use of corn sugar by this industry, although its use has been encouraged to the fullest extent consistent with such principles.

This is not necessarily true as to the ability of manufacturers of sugar-containing solid foods, evidenced by a comparison of the quantities and ratios of corn sugar used in other food industries (table VII).

Since corn sugar may be so readily used in these other industries, increased use of it by them offers another solution to the sugar problem. Measures could be adopted to encourage its increased use. In fairness to industries where its increased use is limited by the difficulties outlined, they should not be subjected to discrimination by being put in a less favorable position in their ability to obtain and use cane and beet sugar than the corn-sugar using industries.

Finally, all manufacturers of the same type of product should be subjected to the same restrictions relating to sugar supply and use. Table VIII, appended hereto, illustrates the various types of soft-drink products sold for the same purposes and in competition with one another, comprising: (a) bottled ades and other soft drinks bottled by bottlers, (b) ades and similar drinks bottled by dairies, (c) ades and nectars sold in cans, (d) canned and bottled fruit juices for beverages and mixers, (e) concentrated fruit juices for mixing purposes, etc., (f) soft-drink powders, (g) beverage sirups and extracts for home use.

It seems a reasonable assumption that a differentiation in the quota of sugar to be used by the manufacturers of any of the above products, which results in a decrease in the production of one type, will result in a compensating increase in the production of such others that may have a larger allowance of sugar, so that the purposes of the conservation program will be substantially avoided.

CONCLUSION

All of which leads to this conclusion.

As a civilian industry, the bottled soft-drink industry has a vital place in the affairs of about 3,000 communities where the bottling plants are located. Its importance to the community is on a par with other "small business," such as the local bakeries, the local ice-cream plants, the local ice plants, the local feed stores, the local suppliers of grocery products, and the local produce dealers—all of which are essentially local industries serving their respective communities.

Its product is one which is not only necessary to satisfy the preference of consumers, but it is a minimum price food beverage, satisfying the needs of children and the low-income groups, and having an important place in the industrial plants of the Nation, now so vital to war production.

Its use of sugar is therefore of equal importance with that of other industries and more important than some luxury food items that are not ordinary items of consumption by the masses served by the bottled soft-drink industry.

As American citizens engaged in earning their livelihood, the soft-drink manufacturers of the Nation have a vital interest in the preservation of the Republic and the American way of life. They are willing and desire to make every sacrifice necessary to the accomplishments of these objectives. But they also believe in the American principles of equality before the law, and justice to all.

Any plan of sugar rationing which not only segregates them from the other branches of the food industry, and thus unjustly and unnecessarily discriminates against them, their business, their livelihood, their product, their scores of thousands of employees, their thousands of communities, and their million and more retail outlets, imposes a restriction upon them which is distinctly un-American.

As an industry they have accepted the Government's conservation program essential to the war effort, without question. As an industry they have given the

full measure of cooperation within the administration of General Preference Order M-55, and will continue to do so.

But as American citizens they protest the discrimination and inequities of any allocation program which imposes greater burdens upon them, as a class, than are imposed upon other manufacturers of food items who serve the same consumers and who are in competition with the soft-drink manufacturer.

It is their sincere belief that any such measures, imposed when other fair and effective means for accomplishing the same results are available, only cause dissatisfaction among the citizens of the Nation and tend to promote that disunity which the enemy would be only too happy to see brought about.

Respectfully submitted.

AMERICAN BOTTLERS OF CARBONATED BEVERAGES,
By JOHN J. RILEY, Secretary.

TABLE I.—Leading industries exceeding the bottled carbonated beverage industry in value of products, 1939

Industry	Number of establishments	Value of product	Rank	Value of average product per establishment
Motor vehicles, etc.	1,054	\$4,039,931,000	1	\$3,833,000
Steel works	253	2,721,021,000	2	10,751,000
Meat packing (wholesale)	1,478	2,645,329,000	3	1,792,000
Petroleum refining	455	2,461,127,000	4	5,404,000
Bread and bakery products	15,049	1,711,395,000	5	671,000
Cigarettes	35	1,537,743,000	6	29,650,000
Nonferrous metals (smelting)	63	956,572,000	7	15,154,000
Paper and paperboard	128	933,016,000	8	1,462,000
Newspapers	6,879	828,225,000	9	131,000
Cotton broad woven goods	661	869,351,000	10	1,313,000
Chemicals, n. e. c.	543	839,750,000	11	1,546,000
Footwear (except rubber)	1,070	731,673,000	12	637,000
Sawmills, veneer mills, etc.	7,991	692,945,000	13	938,000
Woolen manufactures	583	655,312,000	14	1,175,000
Flour, etc.	2,143	619,943,000	15	303,000
Canned and dried fruits and vegetables	2,007	587,341,000	16	233,000
Tires and tubes	53	593,973,000	17	10,961,000
Blast furnaces	81	550,832,000	18	6,830,000
Men's and boys' suits, etc.	1,871	356,618,000	19	391,000
Malt liquors	605	328,077,000	20	869,000
Job printing	9,598	315,456,000	21	54,000
Creamery butter	3,506	492,221,000	22	140,000
Generating, etc., equipment	491	470,462,000	23	958,000
Alloying, rolling, etc., of nonferrous metals, except aluminum	188	445,062,000	24	2,367,000
Women's dresses	1,426	441,325,000	25	309,000
Paints, varnishes, etc.	1,166	434,961,000	26	373,000
Prepared feeds	1,383	401,693,000	27	290,000
Cane-sugar refining	27	384,412,000	28	14,237,000
Paperboard containers, etc.	1,538	352,710,000	29	286,000
Tin cans, etc.	248	374,616,000	30	1,502,000
Bottled soft drinks	4,564	365,778,000	31	81,000
Drugs and medicines	1,094	364,985,000	32	333,000
Machine shops, n. e. c.	2,125	360,334,000	33	169,000
Coke and by-products	63	342,197,000	34	4,122,000
Leather	333	339,725,000	35	984,000
Household furniture	1,692	323,629,000	36	205,000
Shipbuilding and repairing	406	327,387,000	37	836,000
Planing mills	3,076	323,613,000	38	104,000
Soap and glycerin	264	302,434,000	39	1,146,000
Candy, etc.	1,252	297,761,000	40	237,000

Source: Bureau of the Census. Relative Importance of Leading Industries (preliminary report, Feb. 5, 1941).

TABLE II

Notwithstanding its high standing among the Nation's industries in business volume, the average value production per soft-drink business is small in comparison with many other industries.

Average size of other businesses compared with average soft-drink business

Products	Number of plants	Production value	Averages
Cigarettes.....	35	\$1,037,748,000	\$29,650,000
Chocolate and cocoa products.....	39	99,018,000	2,564,000
Chewing gum.....	27	60,783,000	2,250,000
Soap and glycerin.....	264	362,634,000	1,144,300
Special dairy products.....	81	57,569,000	1,129,000
Tobacco and snuff.....	132	123,687,000	937,000
Malt liquors.....	605	526,077,000	870,000
Biscuit crackers, etc.....	356	200,793,000	564,000
Salad dressing.....	134	48,942,000	365,200
Canned fish, crustacea.....	214	68,454,000	307,000
Flour and grain products.....	2,143	642,943,000	303,300
Canned and dried fruits, etc.....	2,007	587,343,000	292,600
Prepared feeds.....	1,383	401,880,000	290,600
Quick-frozen foods.....	34	10,107,000	282,000
Perfumes, cosmetics, etc.....	539	147,466,000	273,600
Cigars.....	568	160,754,000	268,800
Confectionery.....	1,252	297,762,000	238,000
Preserves, jams, jellies.....	171	38,036,000	222,400
Pickled fruits, sauces, etc.....	377	72,637,000	192,700
Wines.....	301	32,782,000	108,000
Creamery butter.....	3,506	492,221,000	140,429
Ice cream and ices.....	2,734	285,807,000	104,500
Bottled soft drinks ¹	4,504	365,779,000	81,200

¹ Even this average does not sufficiently emphasize the small size of most soft-drink bottling plants (better demonstrated in following chart), as its computation does not include figures from about 1,900 plants, presumably because annual production did not total \$5,000, which is the minimum covered by the Census report.

Preliminary Report, Bureau of the Census, Census of Manufactures; 1939; Value of Products and Value added by Manufacture, issued Dec. 28, 1940.

PER PLANT PRODUCTION IN SOFT DRINK INDUSTRY

Annual sales	Number of bottling plants in each group	Percent
Less than 25,000 cases.....	4,025	64
Between 25,000 and 100,000 cases.....	1,714	27
Between 100,000 and 250,000 cases.....	382	6
Over 250,000 cases.....	188	3

TABLE III.—Distribution of bottling plants by communities, according to population

Population	Number of plants	Number of communities
Under 2,000.....	684	675
2,000 to 5,000.....	991	818
5,000 to 25,000.....	1,890	1,040
25,000 to 50,000.....	663	185
Over 50,000.....	2,061	181
Total.....	6,309	2,899

TABLE IV.—Comparative employment provided by the soft-drink industry and several other industries

Products	Total employees	Total plants
Bottled soft drinks	58,524	4,504
Ice creams and ices	37,839	2,734
Grain mill and flour products	35,978	2,143
Pickled fruits, vegetables, sauces and seasonings	12,455	377
Cereal preparations	9,033	70
Chocolate and cocoa	8,835	39
Preserves, jams, jellies and fruit butters	4,853	171
Flavoring extracts	3,858	805
Wines	3,705	301
Chewing gum	3,096	27
Salad dressings	3,511	134
Vinegar and cider	1,330	132

Source: Report, Bureau of the Census, Census of Manufactures, 1939.

TABLE V

While the soft-drink industry uses a substantial quantity of sugar in its total production, its primary function involves labor and services. The added value it produces (represented largely by wages and other local expenditures) compares most favorably with other sugar-using industries.¹

Products	Total value of products	Added value	Percent added value
Bottled soft drinks ¹	\$464,603,715	\$278,141,121	60.0
Flavoring extracts	41,073,055	23,436,557	57.1
Cereal preparations	128,382,565	70,348,568	54.8
Bread and bakery products	1,211,023,755	643,596,582	53.1
Ice cream and ices	285,806,781	139,882,656	48.9
Vinegar and cider	7,505,800	3,239,830	43.2
Confectionery	297,761,513	127,026,213	42.7
Pickled fruits, vegetable sauces, and seasonings	72,637,398	30,018,715	41.3
Wines	32,782,090	13,365,326	40.9
Canned and dried fruits and vegetables	587,313,024	231,062,516	39.3
Chocolate and cocoa	99,018,203	35,558,634	35.9
Preserves, jams, jellies, and fruit butters	34,024,559	11,343,695	28.9
Salad dressings	48,941,846	11,068,777	22.6
Grain mill and flour products	649,943,088	143,881,569	22.1

¹ From Reports, Bureau of the Census, Census of Manufactures, 1939.

² Includes "Nonalcoholic beverages" and "Flavoring syrups," as follows:

Products	Total value of products	Added value	Percent added value
Flavoring syrups	\$98,826,785	\$64,297,440	67.1
Nonalcoholic beverages	365,778,930	211,843,681	57.9

TABLE VI

More than 1,000,000 outlets depend upon soft drinks for a portion of their income.¹

Kind of business	Number of stores	Total sales	Active proprietors of unincorporated business	Number of employees	Pay roll
Food group.....	560,549	\$10,114,967,000	516,976	798,462	\$760,762,000
General merchandise stores with food.....	2,737	112,108,000	2,448	10,828	9,409,000
Filling stations.....	241,858	2,822,493,000	231,475	235,527	198,934,000
Eating places.....	169,792	2,135,020,000	170,002	594,643	405,898,000
Drug stores with fountains.....	39,452	1,205,241,000	33,257	156,366	137,994,000
Totals.....	1,014,388	16,389,831,000	954,158	1,795,831	1,512,995,000

¹ United States summary, stores, sales, personnel, and pay roll by kinds of business, 1939.

The number of stores in the retail classes shown in this table suggests the potential retail outlets for soft drink products. Such products are not handled by every single unit in any of these classes. On the other hand, they are undoubtedly handled by many retail establishments that are not included here, such as news stands, cigar stores, billiard parlors, and others. The outlets of types not listed above which do sell soft drinks may equal or exceed the number of units in the table which do not do so. It does not seem unreasonable to assume that there are not less than 1,000,000 retail merchandising outlets in the United States which sell one or more varieties of soft drinks.

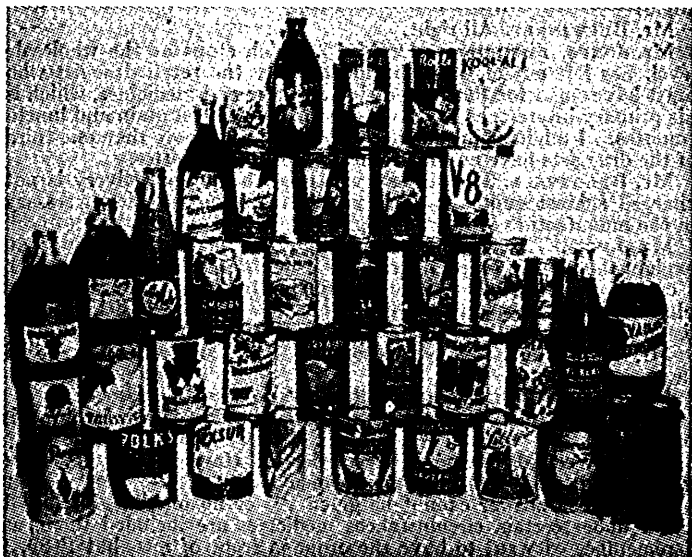
TABLE VII.—Comparative use of corn sugar by soft drink industry and other food industries

Products	Cane and beet sugar		Corn sugar and sirup	
	Pounds	Percent	Pounds	Percent
Malt beverages.....	9,111,292	7.1	120,333,503	92.9
Confectionery.....	708,281,372	57.8	524,303,534	42.5
Chewing gum.....	61,685,290	77.5	17,891,645	22.5
Flavoring extracts.....	31,793,014	81.6	7,173,760	18.4
Bread and bakery products.....	896,922,767	98.1	144,594,728	13.9
Chocolate and cocoa.....	257,023,979	96.3	9,977,533	3.7
Bottled soft drinks ¹	839,990,233	96.6	30,325,372	3.3

¹ This total is a combination of the following Census figures:

	Cane and beet sugar	Corn sugar and sirup
Nonalcoholic.....	Pounds 450,209,250	Pounds 9,157,050
Flavoring sirup.....	400,781,024	21,168,513

Source: Census of Manufactures Reports.



Note that the above includes:

- Noncarbonated beverages bottled by bottlers.
- Ades and similar drinks bottled by dairies.
- Ades and nectars sold in cans.
- Canned and bottled fruit juices for beverages and mixers.
- Concentrated fruit juices for making punches, etc.
- Soft-drink powders.
- Beverage sirups and extracts for home use.

[Telegram]

BOSTON, MASS., March 16, 1948.

Congressman WRIGHT PATMAN,
Care Caucus Room, House of Representatives:

Please record our 300 members in favor of legislation to assist financially all small business to aid in a quick war victory. Many of our plants will close due to sugar shortage on the east coast.

EASTERN SODA WATER BOTTLERS ASSOCIATION,
HUGH J. McMACKIN.

Mr. BULWINKLE. Mr. Jones?

Mr. JONES. Yes, sir.

Mr. BULWINKLE. Will you give your name and position to the reporter?

Mr. JONES. My name is Roland Jones. I am secretary of the National Association of Retail Druggists.

Mr. Chairman, and members of the committee, the retail druggists of the country are greatly concerned with this sugar situation, because we believe that—

Mr. BULWINKLE. In what respect are you concerned about that?

Mr. JONES. I will come to that in my statement, sir. The various angles—

Mr. BULWINKLE. All right.

Mr. JONES. First, the order M-55, which stops at the wholesale level, has left out of consideration entirely the retail druggist who must have sugar for the preparation of drugs and medicines, which is his primary interest, as well as sugar for his soda fountain and luncheonettes. I might point out here, however, that more than one-third of the druggists have no soda fountains or luncheonettes.

Mr. BULWINKLE. Let me ask you this, then—the delivery is not charged against quotas for any person requiring supplies necessary in the manufacture of health supplies?

Mr. JONES. That is another situation, sir, but very briefly I can explain the trouble there. Strangely enough, and for a reason which I cannot see, although I have tried diligently to find out, drugs and pharmaceutical preparations are not included in the health supplies listed on the order P-29 of the War Production Board.

Mr. BULWINKLE. Let us get some of the War Production Board here.

Mr. HAWES. I am the assistant general counsel.

Mr. BULWINKLE. Why were not medicines provided for in this order?

Mr. HAWES. My name is Alexander B. Hawes, I am assistant general counsel of the War Production Board.

I think the answer cannot be given yes or no on that, because I think under certain circumstances medicines are included there, as I remember—I want to have the order in front of me—but P-29, I believe, no, P-29—

Mr. BULWINKLE. This refers to P-29.

Mr. HAWES. Health supplies, I believe, includes medicine and chemicals.

Mr. JONES. That is right; sugar does not enter into medicinal chemicals.

Mr. HAWES. No, sir; that answers that.

Then for several months there has been considerable discussion at the Board about including medicinal preparations. I think they called them preparation for medicinal uses. At the time this was written, Major Bulwinkle, it was contemplated that Order P-29 would be amended shortly, but because of disagreement the order has never been amended, so that actually it is correct according to Mr. Jones' information. This gives no preference.

Mr. BULWINKLE. Will you make a note of that and see that it is amended?

Mr. HAWES. I have no authority to amend these orders.

Mr. BULWINKLE. Well, who has?

Mr. HAWES. Well, obviously the War Production Board, the counsel of the War Production Board, passes on it.

Mr. BULWINKLE. Will you make a recommendation; will you pass to them that this committee recommends—

Mr. HAWES. I will pass the recommendation of the committee on to them.

Mr. BULWINKLE. Immediately, and not discuss it for 2 or 3 months?

Mr. HAWES. Well, Major Bulwinkle, there are other sides to that question that perhaps the committee will want to consider.

Mr. BULWINKLE. I take it that the quantity of the sugar is very little.

Mr. JONES. Very little.

Mr. HAWES. May I say one other thing about this, as it has been pointed out several times this morning, this order does not end at the retail level, the level in which Mr. Jones is interested. That level will have to be taken care of.

Mr. JONES. P-29 does, however.

Mr. HAWES. P-29 does.

Mr. BULWINKLE. You refer to P-29.

Mr. HAWES. Wholesale manufacturers of medicinal preparations under this order, if P-29 is amended in order to take care of the retail druggists. However, they will have to go to the O. P. A., which is the only authority to ration for that level. We do not have any authority to help the retail druggists at the present time.

Mr. BULWINKLE. Well, here is a man that stands in the position of a retailer, who has to have sugar for health purposes, to make medicines, and it says that he can only get a quota allowance. I think somebody ought to take that in charge and do it.

Mr. HAWES. That is not what this order does. This order does not say that the retailer can only get his quota, this order does not control retailers' allotments. Retailers can get as much as they can find in the market. This order controls wholesalers.

Mr. BULWINKLE. Well, he has to buy it from the man who gets the quota.

Mr. HAWES. That is correct.

Mr. BULWINKLE. He is not authorized to get an exemption?

Mr. HAWES. Yes, sir.

Mr. BULWINKLE. Now, you can go ahead—in many instances canners buy from retailers.

Mr. HAWES. Well, they would not be helped by this order; they are not controlled by the order.

Mr. BULWINKLE. And the wholesaler—well, do not the Red Cross in many instances buy from retailers?

Mr. HAWES. They may; I don't doubt it for a minute, but they don't get any help from this order, because this order does not control sales by retailers. We cannot control sales by retailers. O. P. A. has the only authority on that.

Mr. BULWINKLE. Why not put a section in exempting them just like you do the canners?

Mr. HAWES. They are already exempt if they are buying from retailers. If they are buying from wholesalers, then they get this exemption.

Mr. BULWINKLE. All right, I think something ought to be done.

Mr. HAWES. This is confused jurisdiction. I think that is the difficulty.

Mr. BULWINKLE. Now then, coming down to the other proposition.

Mr. JONES. I want to make it perfectly plain that our main interest here is in sugar for drugs and pharmaceutical preparations. We will take our chances on sugar for soda and luncheonettes, when that time comes. Our main objection now is that that necessary use for sugar has been completely ignored. I have made many trips over to the Sugar Section and they—probably they have been cooperative as far as they can go, and I wish to say that Mr. Bowman very kindly

authorized us to publicize two letters over his signature which in effect, however, only suggested to the retail grocer that he ought to give the retail druggist all the sugar needed for drug and pharmaceutical use.

Mr. KELLY. I think he ought to have it, too.

Mr. JONES. But it simply has not been effective in many parts of the country. Some retail grocers would honor that kind of a suggestion, but that would not eliminate the trouble. Our main trouble is the emergency.

Mr. KELLY. How much sugar does the average druggist use?

Mr. JONES. We made an estimate at the time that we tried to clear up this matter, and we were told—we told them that if they would give us 10 pounds per week for our drugs that would give us ample.

Mr. KELLY. Do you mean you use as much as 10 pounds per week?

Mr. JONES. Yes; see, we use 7 pounds of sugar to make 1 gallon of U. S. P. simple syrup, which is required under our drug laws for a large number of preparations. We cannot use substitutes. If we use substitutes the product is adulterated.

Mr. KELLY. I agree with you, I think, on that proposition. Now coming down to the other one.

Mr. JONES. The base of our trouble has been that the average retail druggist has gone down to his neighborhood grocery in the past and bought his sugar and paid cash for it, because sugar is sold so close there is no particular advantage in buying in large quantities from the wholesaler. For that reason he had no record of purchases with the wholesale grocers or any other wholesaler of sugar. For that reason he had no past record upon which to base a quota, so that when he went to the wholesale grocer or other wholesaler of sugar he had no basis upon which to demand his allocation of sugar and there is some feeling that has grown up among wholesalers—

Mr. KELLY. Give us an illustration.

Mr. JONES. For instance, we have had reports or examples where a retail druggist who had formerly bought from retail and could not get it from the retailers, except maybe 2 pounds and then had to buy a dollar's worth of groceries to get 2 pounds, who has turned to the wholesale grocer and appealed to him to let him have enough sugar to provide for pharmaceutical use and the wholesaler has told him—

Mr. KELLY. Forget about that, I want to get at the other thing.

Mr. JONES. Well, they went for sugar to the wholesaler and he told them, "You have not done any business with us in the past, we don't see why we should give you any sugar." If he has done business, provided, if you receive sugar from us, you give us your candy and tobacco business. In other words, there has been a pressure and a coercion used on the part of the wholesaler to use this sugar which they could sell to anybody they wanted to. We have had coercion used to get more business for themselves in exchange for the sugar we have had to have.

Mr. BULWINKLE. Unfortunately, that applies to most products, even to fertilizer.

Mr. JONES. That is an evil that ought to be stopped, because it is an unfair trade practice if there ever was one.

Mr. BULWINKLE. I quite agree with you on that.

I am hurrying you through because we haven't but a few minutes here.

Mr. JONES. All right, I will leave this final word.

If there is any use for sugar that should have a priority it is the use of sugar for health and pharmaceutical use. After that is taken care of, why, I think then they might worry about soft drinks and confectioners and things of that kind. The idea is that the amount of sugar we need is not a drop in the bucket to the total sugar supply.

Mr. BULWINKLE. You can leave your statement here and it will go in the record. We will put it in.

Mr. JONES. All right.

Mr. BULWINKLE. Mr. Gott—not here.

Have you anything, Mr. Nemir, that you can enlighten this committee with?

Mr. NEMIR. No, sir.

Mr. BULWINKLE. Mr. Nemir is the sugar expert of the Department of Commerce.

Mr. NEMIR. In my work we deal with sugar in all of its phases. It would be very difficult to start in, I would not know where to begin.

Mr. KELLY. How long have you been in this capacity in the Department of Commerce?

Mr. NEMIR. Seven years.

Mr. BULWINKLE. I wish you would do this, if you will make up the record we will put it in, and give us the whole picture of sugar so far as the quantity of production is concerned, so that we will get it in table form and have some idea of it. You can do that?

Mr. NEMIR. Do you mean now?

Mr. BULWINKLE. Yes; we are doing this because we have got to go. It is nearing 12 o'clock now and we will have to adjourn.

Mr. NEMIR. I see, and you would like a statement for the record?

Mr. BULWINKLE. For the record, you can put it in the record.

Mr. NEMIR. All right, sir. It will, however, be for the use of the committee and not for publication.

Mr. BULWINKLE. The committee will meet tomorrow at 10:30, not on the sugar situation, gentlemen, but on something else.

(Whereupon, at 11:50 a. m., the hearing adjourned to 10:30 a. m., Thursday, March 19, 1942.)

WAR PRODUCTION BOARD,
Washington, D. C., March 18, 1942.

HON. WRIGHT PATMAN:

Chairman, House Small Business Committee,
House of Representatives, Washington, D. C.

DEAR MR. PATMAN: At the request of Congressman Bulwinkle, acting chairman in your absence this morning, I have transmitted to Mr. Knowlson, Director of the Division of Industry Operations, the recommendation of your committee that M-55, the sugar conservation order, be amended so as to exempt from quota restrictions, sugar used in the preparation of pharmaceuticals. At the same time, however, I have pointed out that he may wish to consider making a distinction between sugar used in preparations for medicinal use which are recognized by the United States Pharmacopoeia or the New Formulary, and other preparations, such as patent and proprietary medicines, which are not so recognized.

I have pointed out to him also that, in the light of Directive No. 1, delegating the rationing authority to Office of Price Administration, there is nothing which the War Production Board can do, directly, to help retail druggists who buy from retail sellers of sugar.

Sincerely yours,

ALEXANDER B. HAWES,
Assistant General Counsel.

SMALL BUSINESS IN THE UNITED STATES

THURSDAY, MARCH 19, 1942

SELECT COMMITTEE TO CONDUCT A STUDY
AND INVESTIGATION OF THE NATIONAL DEFENSE
PROGRAM IN ITS RELATION TO SMALL
BUSINESS IN THE UNITED STATES,
Washington, D. C.

The select committee met, pursuant to adjournment, at 10:30 a. m., in the caucus room, old House of Representatives Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman (chairman); Halleck, Hall, Kelly, Bulwinkle, and Ploeser.

The CHAIRMAN. Will you please give your name, official position, and address to the reporter.

Mr. GIEGENGACK. Augustus E. Giegengack, Public Printer; address 3516 Tilden Street NW., Washington, D. C.

The CHAIRMAN. I would like to make a short statement before proceeding.

Pursuant to House Resolution 294, this committee has been conducting hearings in connection with the operations of small business enterprises adversely affected by the war program. One of the businesses to which consideration has been given is the graphic arts industry. Through a select committee, hearings were held in Detroit where testimony was taken from the Chief of the Small Business Section of the Antitrust Division of the Department of Justice, and various representatives of printers, lithographers, and bookbinders.

The witnesses stated that because of the discontinuance of the sale of automobiles, tires, and other commodities restricted by the War Production Board the receipts of the printing industry in that city have fallen off anywhere from 50 percent to 80 percent.

A suggestion has been made that the Government Printing Office do only that printing which cannot practicably be let on contract to private concerns. If placed in effect, such action would leave your Office that work involved in printing confidential and secret copy, committee reports, the Congressional Record, legal briefs, and emergency work of an urgent nature. A further suggestion has been made by representatives of the printing concerns, particularly in Detroit, that the Government Printing Office divert its commercial printing to private printing plants on the basis of negotiated contracts in those areas where the greatest percentage of economic dislocation has been occasioned due to the war effort.

In view of the ramifications of the suggestions, the committee would appreciate a statement from you respecting the statutory functions, operations, and present condition of work in the Government Printing Office.

STATEMENT OF AUGUST E. GIEGENGACK, PUBLIC PRINTER OF THE UNITED STATES

Mr. GIEGENGACK. Mr. Chairman, I am glad of the opportunity to make a statement on Federal printing, not only in respect to the printing performed in the plant of the Government Printing Office but also that procured from commercial sources.

Recently contracts for Government printing have been the subject of much interest, probably because of the diminishing business of commercial printers. As a result, many of these printers are seeking Government work with the idea that it will save their businesses. In their eagerness in following up this ray of hope, I fear that they may be attaching much more importance to the subject than it deserves. Some time back the President stated that our all-out effort would consume 50 percent of the Nation's production for ships and planes, tanks, and munitions. He used that percentage as an aggregate figure. He did not mean, of course, that the war would take in all cases a 50-percent toll from each industry, or that printing required by the Government would amount to one-half of the annual receipts of the industry. Contrary to the hopes of many printers, the additional printing occasioned by the war will not increase in proportion to the war expenditures. Appropriations for the prosecution of the war are 10 times last year's figure. Obviously, no such increase will take place in Government printing.

LAWS APPLICABLE TO GOVERNMENT PRINTING OFFICE

Under the law all printing, binding, and blank-book work for the Congress, the Executive, the judiciary, and every department and independent establishment of the Government is required to be performed at the Government Printing Office, except such work as may be deemed by the Joint Committee on Printing to be urgent or necessary to have done elsewhere than in the District of Columbia, for the exclusive use of any field service, or except such work as may be performed in departmental field plants operated by the departments under the general supervision of the Joint Committee on Printing.

Under certain conditions Government printing may be procured from commercial sources. These conditions fall into two categories:

1. Such printing, binding, and blank-book work as the Public Printer is not able to do in the Government Printing Office may be produced elsewhere under contracts made by him or with the approval of the Joint Committee on Printing.

2. The Public Printer under the direction of the Joint Committee on Printing may authorize any executive department or independent establishment of the Government to purchase direct for its own use any printing which the Government Printing Office is not suitably equipped to execute, or which may be performed elsewhere more economically, or in the better interest of the Government.

OPERATIONS OF THE GOVERNMENT PRINTING OFFICE

The Government Printing Office is in the legislative branch of the Government, but it serves all three branches—the legislative, the executive, and the judicial. The history leading to the organization of the Office reveals that it was created to improve Federal printing and to

eliminate graft and excessive charges for work by private contractors. This Office was established 80 years ago to render a service to the departments which they could not expect from any other source and has been continuing to render that service.

The operations of the Government Printing Office are supervised by the Joint Committee on Printing, which is composed of three Members of the Senate and three Members of the House of Representatives. The committee exercises extensive powers in relation to the policies of our Office, and on all important matters it is our practice to consult with the committee and to be guided by its decision. In general, the committee has power to employ whatever measures may be deemed necessary to remedy neglect, delay, duplication, or waste in printing and binding and in the distribution of Government publications.

BUSINESS CONDUCTED DURING THE PAST 2 YEARS

The products of the Government Printing Office include many types of printed matter. Work is performed for Federal agencies in connection with the printing of books, pamphlets, periodicals, posters, maps, stationery, envelopes, letterheads, forms, money orders, postal cards, and a variety of other purposes incident to administration of government.

The total charges for service and materials furnished departments for the fiscal year 1940 amounted to \$20,150,204. For the fiscal year 1941 the amount increased to \$28,593,639. As a result of the declaration of war, it is estimated that for the fiscal year 1942 the total will amount to about \$50,000,000.

FACILITIES AND EMPLOYEES

The Government Printing Office is housed in four buildings, erected between 1903 and 1940. The floor space in these buildings covers more than 33 acres. The buildings house all the services relating to administration, composition, platemaking, presswork, bindery, delivery, and maintenance. Investment in the tangible assets is, roughly, \$25,000,000, made up as follows: Structures and land, \$12,000,000; equipment, \$6,000,000; inventories of paper, materials, and supplies, \$2,000,000; and work in process, \$5,000,000.

The following statement shows the number of persons employed by the Government Printing Office at the close of each of the fiscal years 1940 and 1941 and as of March 1, 1942:

June 30, 1940.....	7,172
June 30, 1941.....	7,149
Mar. 1, 1942.....	7,470

By referring to the foregoing statement it will be noted that the increase in personnel during the period of war preparation and since the outbreak of hostilities, that is, from June 30, 1940, to date, reflected a net addition of 298 employees, or about 4 percent.

As of March 1, 1942, the employees were distributed as follows: Day shift, 4,937; night shift, 1,633; intermediate shift, 900; making a total of 7,470 employees. These employees are engaged on the typical tasks in the printing industry, such as administration, composition, platemaking, presswork, binding, and the incidental maintenance services found in a large printing establishment.

EQUIPMENT REPLACED

When the earlier preparations for national defense were started a little over a year and a half ago, the Government Printing Office recognized that heavy demands would likely be made upon it. After a survey of defense printing needs, so far as they could then be ascertained, we deemed it inadvisable to expand the plant or add to the equipment. If an expansion program were adopted the Government Printing Office would find itself at the close of the war with facilities in excess of those required for its peacetime needs.

In line with this policy, no additions have been made to the plant. Nor has any machinery other than for replacement purposes been purchased. The total cost of replacement machinery for the fiscal year 1940 was \$297,644.14; for the fiscal year 1941, \$294,739.97; and for the first half of the current fiscal year, \$147,057.71. The amounts thus expended have been less than the average depreciation on the machinery. Furthermore, our policy of replacing uneconomical equipment with modern machinery has resulted in some instances in the reduction of the number of units. For example, we have 129 slug-casting machines now, against 175 in 1939, a reduction of 46 machines.

MOBILIZATION OF COMMERCIAL PRINTERS

Instead of enlarging the plant or increasing the force to meet the extraordinary demands of the war, the Government Printing Office has taken steps to procure surplus printing from commercial sources. Pursuant to the statutory provisions heretofore cited, contracts are being let under competitive bidding to outside printers where the Government Printing Office is not able to complete the work within the time allowed by the requisitioning agency, or where it is not equipped to perform special processes involved in the work.

In an endeavor to mobilize the printing industry for war purposes and to secure information on commercial facilities in the furtherance of competition, the Government Printing Office sent out questionnaire forms to printers and employing printers' associations. Factual information was sought through the questionnaire so that we might be in a position to circularize firms which are equipped to handle various types and sizes of jobs. A total of 2,827 questionnaires have been filed by commercial printers. Of this number, 303 were received from firms performing services to printers, such as photoengravers, electrotypers, specialty binders, and so forth. The remaining 2,524 questionnaires included 1,121 printing firms, the equipment of which is not of a type or of sufficient capacity to handle the ordinary job procured commercially by the Government Printing Office. There is thus available a listing of 1,403 printing houses to which circulars may be sent. These represent all States and all Territories. A recent count of the opportunities offered to printers showed that invitations to bid had been sent to 1,145 concerns. As each departmental requisition is assigned for procurement through outside contract printing, reference is had to an abstract of the questionnaires to determine the plants equipped to perform the job in the time allowed.

When specifications are drawn for outside printing, circulars are sent to bidders and a notice is posted on the bulletin board in

the Government Printing Office. As the cost of preparing circulars, reviewing proposals, and making awards increases with the number of bidders, usually a system of rotation is followed, so as to give all printers an equal opportunity to bid. Awards are made to the lowest bidder.

From October 1940 to March 1942, a total of 2,140 printing contracts were let under competitive bidding to 311 contractors in 77 cities of 28 States, for a total consideration of \$5,205,785. Ordinarily paper, plates, and binding materials are supplied by the Government Printing Office and are, therefore, not included in the foregoing figure.

CONTRACT PRINTING

For the most part, printing has been let on contracts to commercial concerns only where our facilities are not adequate for the work. The amount of such contracts in the future is problematical. At the hearings recently held before the House Appropriations Committee we estimated that the total amount of outside printing might run as high as \$10,000,000 a year. On the whole, the estimate is probably the best that can be made at this time. No one can foretell with reasonable accuracy the amount of printing that may be involved in the war-rationing program, the allocation and production measures, and the financing program, to say nothing of the printing that may be needed for direct prosecution of the war.

PROPOSAL OF SMALL BUSINESS SECTION

About 6 weeks ago Mr. Harold A. Henderson, of the Small Business Section of the Antitrust Division of the Department of Justice, visited the Government Printing Office. For about an hour he discussed with officials of the Government Printing Office the arrangement relating to outside printing. During the conference he was informed that our Office operated on a three-shift basis of 24 hours a day and any work which involved special processes not performed by our equipment was let on contract under competitive bidding to commercial printers. He was also informed that such work had amounted to about 10 percent of the total volume of business conducted by the Government Printing Office.

Shortly thereafter, his Chief, Mr. Guy Holcomb, addressed a letter to the counsel of the Senate Committee on Defense Costs, in which he suggested that consideration be given to the idea of the Government Printing Office doing only work that could not be let on contract to private concerns. His letter stated that in recent years the Government Printing Office had greatly expanded its physical plant and was operating on a 24-hour-a-day basis. Proceeding from this point, he advanced the thought that if this Office would handle only necessary printing on an 8-hour-a-day basis, an additional 66 $\frac{2}{3}$ percent of its business could be spread among several thousand private concerns facing conditions of distress. In support of the proposal he set forth two advantages which he believed would accrue from such action: First, that the employees of the Government Printing Office domiciled in the District could be released to other Federal agencies, whose personnel requirements necessitates bringing in additional people to Washington; secondly, that such aid would be of far-reaching assist-

nance to commercial printing establishments in keeping their economic body and soul together.

Let us look at each advantage claimed.

The thousands of Federal employees who have recently come to Washington, and the thousands more who will be coming, constitute a grave housing problem. For this reason, no suggestion should be overlooked. Care must be exercised, however, that any plan adopted shall improve, and not aggravate, the situation. The employees of the Government Printing Office are under civil service, with a low rate of turn-over. Many of them have had years of service in this organization and are highly skilled in their line. Most of them, however, are untrained in other occupations. About three-fourths of our employees are engaged directly in printing, as compositors, electrotypers, stereotypers, photoengravers, pressmen, bookbinders, and their apprentices, assistants, and helpers. The remaining one-fourth of the employees are required for service functions, such as administration, supply, maintenance, and so on. These skilled craftsmen could not find suitable employment in other Federal agencies, nor could the employees in the service groups engaged in specialized tasks such as planning, estimating, and computing printing jobs likely find similar work in other Government agencies. For the most part, the defense agencies in Washington need employees with clerical, administrative, and fiscal qualifications. Insofar as I am informed, they do not want printers, pressmen, bookbinders, platemakers, or others who have specialized in the printing industry.

The second point made by Mr. Holcomb, namely, that such action would be of far-reaching assistance to printing establishments, is merely wishful thinking. His letter admits that the plan would not prevent failure among thousands of concerns. To think clearly we must see things as they are and impartially appraise that aid which might be given. According to the latest report of the Bureau of the Census, the annual volume of business of the printing and publishing industry in the United States amounts to approximately two and one-half billion dollars. The total business of the Government Printing Office for the current year will amount roughly to \$50,000,000. Exclusive of paper and other supplies which this Office must continue to handle, the amount of printing which could be distributed to private printers would not exceed \$25,000,000. This amount, therefore, is only 1 percent of the volume of business of the industry as a whole.

Recently the United Typothetae of America, a national association of printing concerns, made a survey on the unused capacity in the industry. Its report, compiled last month, showed on an annual basis available unused productive capacity of \$1,200,000,000. Obviously, a relief measure involving only \$25,000,000, or approximately 1 week's work for the unused capacity, would have little substantial or lasting benefit for the industry.

Having been connected with the printing industry all my life, I realize fully its condition at the present time. It is quite as serious as the dislocation of any other business thrown off balance by the impact of the war. But, however much we may wish to help, we must recognize that even the total transfer of all Government printing would render little assistance to the 15,000 printing houses in the industry. For these reasons I must disagree with Mr. Holcomb's

conclusion. The spreading of additional Government printing under his plan would not be of far-reaching assistance to commercial printing concerns.

EFFECT OF TRANSFERRING PRINTING TO COMMERCIAL SOURCES

I am certain you would be interested in considering the effect the proposal would have on the cost of Government printing. Through misunderstanding of our operations, the Chief of the Small Business Section assumed that if three shifts covering 24 hours were reduced to a 1-day shift of 8 hours, 66 $\frac{2}{3}$ percent of the work could be transferred to commercial printers. In relation to manpower as heretofore indicated in the respective shifts, almost the exact reverse of the deductions made by him is true, since about two-thirds of the work is performed by the day shift and only one-third by the combined night and intermediate shift. Incidentally, nearly all congressional work which he concedes must remain in the Office is performed on the night and intermediate shifts. Disregarding these facts, however, the question remains whether such percentage of the work could be transferred to private printers and still be in the interest of the Government.

The printing needs for Washington departments have been concentrated in a single Government-operated plant in order that work may be placed on a mass-production basis with low operating costs. In manufacturing operations, production costs, up to the designed capacity of the plant, decrease as the volume of work increases. The Government Printing Office is no exception to this rule. The elimination of two-thirds, or any other sizeable portion of the work, which a plant has the capacity to handle will increase unit-production costs.

Furthermore, the charges made by commercial printers are higher than Government prices. The question of comparative costs has been investigated many times. It is annually raised during the hearings on the various departmental appropriations. Last year an extensive study was made of prices in comparison with those charged by commercial printers for comparable work. The information developed in that study shows that on the average our charges were substantially less than those made by commercial printers for similar work. Since the opening of the first bids, every means have been used to secure lower bids, but the prices charged by commercial printers for their work are still higher than those charged by the Government Printing Office.

GOVERNMENT PRINTING OFFICE MUST BE CERTAIN OF DELIVERIES

There is another and more serious objection to transferring additional printing to private contractors at this time. Frequently, in the desire to aid one who through no fault of his own has been reduced to dire straits, there is a tendency to let emotional arguments obscure the intellectual reasons. The question may be asked: Is this the proper time to take such action? The country is engaged in a war of a magnitude heretofore unequalled in history. From all sides comes the urge for production and more production, speed and more speed. Production involves many factors—including printing. This service, commonplace as it is, is an important element in the chain of governmental steps leading to production. Any interference or delay in the

normal flow of printed matter would seriously impede the war program.

After 80 years of operation in which the activities of the Government Printing Office have become dovetailed into departmental practices, the system cannot be torn up overnight and a new source of supply substituted without the dislocation of working arrangements, resulting in endless confusion. No unnecessary risks ought to be assumed that might delay our war efforts at this time. Needless to say, a self-contained unit with experienced employees and modern equipment, and carefully watched production schedules, has every advantage over an arrangement in which the work would be distributed to a large number of private concerns with limited types of equipment located in scores of places throughout the United States, hundreds or even thousands of miles removed from the source of copy and editorial supervision, and equally distant from the specified places of delivery. The loss of time and money could not be estimated.

REASONS FOR CONTINUATION OF PRESENT POLICY

Gentlemen, I have tried to outline to you as briefly as possible the facts as they are known to those of us who have been long engaged in supplying the printing needs of Congress and the Federal departments. Many questions have been raised, not only before this committee but with the Government Printing Office and other agencies, which I have passed over without comment in an effort to save time. In the great majority of cases these questions have been raised by those who are unfamiliar with the conditions under which we work, the type of service we are called upon to render, the law and regulations we must necessarily follow, and the reasons for those requirements.

I want to emphasize as strongly as I can the sole function of the Government Printing Office is to render the best possible service to the other Federal departments and agencies by seeing that they get their printing as economically and efficiently as possible. We have no authority whatsoever to deviate from this course for any reason, regardless of how worthy that reason may be. In other words, we cannot award a contract to a printer in order to keep him from going into bankruptcy, however worthy his case or what the cause of his financial condition may be. If we are to perform our jobs in accordance with our obligations we must award each contract for every printing job to the printer who is in a position to render the Government the best service at the lowest price. This, we strive to do. To do otherwise would not only be a violation of our trust, but would result in placing an unauthorized burden upon the taxpayers as a whole for the benefit of the particular printer who received a contract under conditions other than those I have described.

My use of the word "unauthorized" might be questioned by some who allege that I do have such authority through the Executive order of January 14, 1942, authorizing the Government Printing Office to enter into negotiated contracts. Those who make these allegations overlook the conditions under which that Executive order was issued and the purpose of such order. It was issued upon the request of the Congressional Joint Committee on Printing and made with the distinct understanding that it would be used only in extreme emer-

gencies and with its approval. We are required by the terms of the Executive order itself to make full and complete reports to the President on every contract entered into through negotiation. We are required to show that it was necessary to use the authority in order to get the service by the time it was needed. In not a single case, to date, has this been necessary. In view of the flexibility of the regulations covering the procurement of competitive bids, allowing telephone or telegraph bids, I doubt that few cases will arise in the future necessitating the use of the authority contained in the order. If they do, it will unquestionably be used to the fullest extent.

I was not too favorably impressed with the testimony of those recommending the use of negotiated contracts. A brief review of their statements will show that all who recommended it felt that they would receive higher prices for any printing contracts awarded to them by negotiation. I cannot feel that this is in the interest of the Government as a whole.

Another point that has been stressed with great force is that the Government through its operation of the Government Printing Office is in direct competition with commercial printers and that this condition did not exist during the last war as the individual departments and agencies went to commercial printers for their printing needs. I cannot concur in the statement that the Government is in competition with commercial printers, "competition" is the effort of two or more parties, acting independently, to secure the custom of a third party by offering most favorable terms. This, of course, the Government is not doing. It is not seeking the work of a third party. It is merely doing its own work. It is true that the commercial printer in many instances did handle much of the work needed by military agencies during the last year. In World War I printing contracts were often negotiated directly with printing firms and the recommendation before you is asking for a return to conditions that resulted in a survey ordered at that time by President Wilson. The survey brought about the passage of the act of March 1, 1919, requiring all printing to be done at the Government Printing Office.

That survey revealed that unsupervised and uncontrolled letting of contracts had the following effects:

1. Increase in the total cost of Federal printing through duplication and waste.

2. Ninety-five percent of the commercial charges exceeded what the Government Printing Office would have charged for the particular jobs by from 2 percent to as high as 471 percent. The Government Printing Office was found to be slightly higher on about 5 percent of the work.

3. Confusion and increased expense in the departments due to need for specialized forces for preparation and examination of work and the audit and investigation of charges.

4. Seriously hampering, if not completely disrupting the operating flexibility and service facilities now available.

Incidentally we have recently had a few experiences that would more than justify the continuing of our present practice, including the supervision of the Government Printing Office over printing contracts. On a job ordered directly by a department without proper authority it developed that the department was billed \$1,700 for a job that should not have cost in excess of \$310. The printing was inferior.

Printing can be intelligently, economically, and efficiently purchased only by those thoroughly familiar with the technicalities of the trade. It requires experience in analyzing, planning, and estimating printing jobs, and in the drawing of the specifications and directions necessary for production. The individual departments and agencies are not staffed to perform this function, as it is a service which is the duty of the Government Printing Office to perform for them. Unquestionably, under these conditions the better interests of the Government as a whole will be served by a continuation of our present practice, under which all printing needed by the departments and agencies is either produced by or procured through the Government Printing Office. In order to meet the demands of the departments, the Government Printing Office will continue its present policy—that is, to release to commercial printers any job it cannot complete in the time allowed for its production. Under this policy it is estimated that at least \$10,000,000 worth of work will be placed in commercial channels. Any further releases would not be in the interests of the Government and would be of no material assistance to the industry.

The CHAIRMAN. Gentlemen, I have some prepared questions which I would like to ask, but I will yield to the other members of the committee to ask any questions that they may desire to.

First, Major Bulwinkle.

Mr. BULWINKLE. No; go right ahead.

The CHAIRMAN. In a prepared statement the chairman of the Detroit Printing Industry Committee made several recommendations with the idea of obtaining printing for Detroit printers who have suffered dislocation of their business because of the war. Do you wish to comment on his statement?

Mr. GIEGONACK. While some eight or nine recommendations were made, not all of them related to the Government Printing Office. The several recommendations which did pertain to this Office constituted in effect one single proposal: "To divert printing under negotiated contracts by the Government Printing Office to plants which have suffered a loss of 50 percent or more of their volume of business."

The author of the recommendation made no pretense that use of the 50 percent business reduction clause was inserted for any purpose other than to place the entire outside printing business in the city of Detroit. He stated that—

Since no other city in the country can demonstrate such serious dislocation we are certain that the interests of the Government and the need of employers and employees in this area will be served by such a plan, and that future anticipated cases of dislocation in the industry can be provided for.

I do not know whether Congress could legislate so as to give the entire outside Government printing to Detroit without violating the equal-protection provision of the Constitution. At any rate, such action is a matter for consideration of the Congress, and not of an administrative officer. While Detroit has undoubtedly been adversely affected, printing establishments in other cities have also suffered drastic reductions in their business. I know this because printers and even delegations from other cities have visited my office in search of work. Who can say that the printers in one city should be relieved while those in another city should be left without even the opportunity to bid on work?

The CHAIRMAN. In the interest of time, these questions were submitted to the Public Printer in advance, so that he could give carefully prepared answers.

Do you know of any reason for granting printing to Detroit in view of the fact that their business has been virtually wiped out because of war restrictions?

Mr. GIEGACK. In my opinion, if the Government grants Detroit this privilege, it must follow the same course in other localities which also may be adversely affected by the war. When such a condition exists, who is to determine when a city shall be helped, or under what conditions aid would be rendered to an industry?

If this concession is made to Detroit printers, shall the Government give assistance to the mail-order catalog printers in Chicago, who also are hit by reduction in printing because of war restrictions?

I am sorry if the representatives from Detroit feel that the Government Printing Office in sending out work to other localities, is unfair to their city. I have explained to them that the Government Printing Office cannot show preference and must purchase its materials and services at the lowest cost to the Government. Detroit is not alone. Groups seeking business have visited my office from Scranton, Chicago, St. Louis, New York, Philadelphia, Baltimore, Richmond, Minneapolis, St. Paul, Boston, and Atlanta.

The CHAIRMAN. Has any Federal printing been given to Detroit and what is the situation there respecting competitive bidding?

Mr. GIEGACK. During the past year the printers in Detroit, as one of the 78 cities receiving contracts, had \$28,034 of Government printing on which they were the low bidders. For a long time their bids as a whole were much higher than those of printers in similarly competitive areas, probably due to the volume of work then being received from the automobile industry.

A little over a month ago we had a conference with a group representing the printers from Detroit. They outlined the situation respecting the extraordinary loss in business and stated that receipts had fallen off by 80 percent. We explained to them the system under which Government printing is let to private contractors, and also the legal requirements that contracts be let under competitive bidding.

In reading the statement of the chairman of the Detroit Printing Industry Committee, Mr. Arthur W. Winter, one cannot escape noting the apparent unwillingness of the printers to compete on our offerings, or at least their insistence on obtaining work on a negotiated basis. I was a little disappointed to read the remarks of some of the printers—in such statements as these:

The fellow who made the biggest mistake in bidding got the job.

Detroit cannot compete with labor and geographic positions with some other cities.

Precious time could be saved by negotiated contract.

And so forth.

Suffice it to say we have no authority to take upon ourselves the mission of aiding a distressed group by arbitrarily diverting business to them to the exclusion of other printers who are willing to compete for that business.

The CHAIRMAN. You mentioned Mr. Winter. I believe it was Mr. Winter who said that on one job they had discussed with you for

2,000,000 copies, the work could have all been handled entirely in Detroit in 3 weeks' time, had you permitted that city to pool its facilities.

Have you considered that proposal?

Mr. GIEGENGACK. If Mr. Winter meant the war Rationing Book I, that particular job was for 200,000,000 copies. At the time the specifications were submitted for bid there was not sufficient time granted by the Department to permit allowance of 3 weeks for production. The specifications were written in such a manner as to permit bidders to quote on any quantity they could produce from 10,000,000 copies up. The Detroit printers did not elect to quote on the entire quantity and not all of the bids submitted by them were low enough for awards. The entire rationing job, or program, which Mr. Winter talked about amounted to more than 700,000,000 copies and the facilities needed would have required several months' continuous operation in Detroit—not the 3 weeks he spoke of. Further, due to the fact that more adaptable equipment than available in Detroit, was planned for and used, the production would not only have been slowed, but much more costly.

The CHAIRMAN. Quite often Government orders involve a large number of copies. For this reason some small printing firms may not have the capacity to handle the work. In such cases would it be possible for those firms to pool their facilities, and thereby secure Government contracts?

Mr. GIEGENGACK. On several occasions we have been asked if a firm might bid on a large printing job with the idea of distributing the work among several firms in the same city on some agreed ratio or other division. Also we have been asked if a group of printers might jointly contract for a large printing order, each printer agreeing to perform some operation, or to undertake all operations for a specified portion of the job.

Many production difficulties exist in pooling printing equipment. If a concern were to receive a contract and then transfer a part of the work to another printer, the likelihood of satisfactory performance on the whole job is decreased. Federal agencies requisitioning printing must have assurance of delivery of their printing at the time and in the form specified. Delay in making deliveries or failure to meet requirements may cause needless expense, or even jeopardize an important war program. Under the Federal statutes no contract or order, or any interest therein may be transferred to another by the party to whom the contract is given.

There is an inherent obstacle, which can hardly be overcome by the printers who undertake to pool their facilities. Large-scale printing is a highly specialized operation. In the nature of things an award ordinarily goes to that firm which has the necessary facilities and available workmen to handle the job in its own plant. A firm adequately equipped is in a position to place the work on a continuous production basis, thereby avoiding multiple charges for production, preparation, platemaking, transportation, and other operations which when concentrated in one plant permit that firm to obtain greater proficiency with attendant lower costs.

We do not recommend the subcontracting of printing because such practice is not in the best interest of the Government. The policy of the War Production Board fostering subletting for certain classes

of war work is to expedite production. Subletting of a printing contract retards production and increases the cost. This increase makes it virtually impossible for a group of individual printing concerns to be the lowest bidder on a job.

In some cases where delivery is to be made at various locations throughout the country, the Government Printing Office may divide the work into areas, as a practical matter. In such cases, of course, local bidders in the area can usually compete individually on the work assigned to their area.

The CHAIRMAN. If it meets with the approval of the committee at this point, the questions that were submitted to Mr. Giegengack will be inserted in the record, together with his answers, and they will be available tomorrow morning, and I can in that way yield to the members of the committee to ask any questions they desire. Is that satisfactory?

Without objection they will be entered in the record.

Mr. BULWINKLE. Yes.

Mr. HALLECK. I didn't get that; what is it you are going to do?

The CHAIRMAN. I say, I have submitted to him the questions about the testimony that has been brought out today, so that he could prepare answers to them. He has prepared answers to them. I can read the questions off, if you like, but his answers will be submitted in the record after each question. If that is not satisfactory I will be glad to continue reading the questions.

Mr. HALLECK. I don't care, they are questions which he has not answered today, he has prepared answers, so in effect it amounts to an extension of leave to print.

The CHAIRMAN. Well, you may consider it that way. I have no desire to argue, but I think it brings out the information.

Mr. HALLECK. I am not complaining about that, but it amounts to nothing more than an extension of leave to print.

Mr. GIEGENGACK. It answers almost any question directly in this way.

The CHAIRMAN. Some of the printers stated at the hearing that you have authority to negotiate contracts without competitive bidding, and should you exercise this authority it might be the means of affording relief through contracts to be placed, possibly in the Detroit area. Will you tell us a little about such authority?

Mr. GIEGENGACK. Sometime back we experienced trouble in purchasing paper and certain other supplies, such as stitching wire, cloth, plastics, and so forth. After some delay, the War Production Board succeeded in helping us secure some 15,000,000 pounds of paper, 25,000 pounds of stitching wire, and other supplies. Like every other producer using materials, we are concerned with protecting the sources of supply. When the first War Powers Act was enacted, after discussion of its provisions with the Joint Committee on Printing, a letter was written by that committee asking the President to include the Government Printing Office within the purview of the act. This request was granted in Executive Order No. 9023.

The authority was sought primarily as a precautionary measure to protect the plant in the event of a shortage in supplies. No occasion has yet arisen under which we needed to use this extraordinary power. We have been able to secure paper and other supplies through competitive bidding under regularly prescribed statutory procedure.

Likewise, we have been able to secure any necessary printing under competitive bidding in which the award goes to the lowest bidder. In fact, bidding on outside printing has been highly competitive as many commercial printers are eager for work. So long as these conditions exist we do not need to exercise these special powers. The Joint Committee on Printing asked for this authority and instructed us to use it only in case of emergency and with its approval.

The CHAIRMAN. Does the Government Printing Office always award the contract to the lowest bidder?

Mr. GIEGACK. Yes; notwithstanding the inconsistency in the testimony of the representatives of the Small Business Section. In the letter from Mr. Harold A. Henderson, special attorney, Small Business Section, read at the hearing, he states that it is our invariable practice to make awards to the lowest bidder. Later, in testifying, Mr. Holcomb stated that the administrative assistant in this office reported that bids were not always made to the lowest bidder. Mr. Holcomb's statement is incorrect. Under the law the purchasing officer must award the contract to the lowest bidder.

Mr. Holcomb was probably a little confused. On every outside job the purchasing officer must send the original proposal of each bidder to the General Accounting Office. In the event any proposal is rejected, because the bidder has qualified his offer, as to quantity, time of delivery, or other condition so that it does not meet the specification, a statement must be made on such bid by the purchasing officer explaining specifically why that bid was rejected.

I want the record to show that the complete transaction of purchase of public printing from commercial sources is audited by the General Accounting Office and that agency has approved the awards made on every contract placed by this Office.

The CHAIRMAN. Under what circumstances is the determination made to procure a particular job from commercial concerns?

Mr. GIEGACK. Work is let out on contract where the facilities of the Government Printing Office are inadequate, where the plant is unable to perform the job within the time limit fixed by the requisitioning department without disruption of other work in process or scheduled to be placed in process; where it is desirable to have the service performed at various points to expedite or economize on the distribution of the product; and where a condition is inherent in the work itself, such as the existence of special processes in commercial concerns which render it more economical to obtain the printing from that source.

The CHAIRMAN. Will you explain your system of obtaining proposals on printing from commercial concerns?

Mr. GIEGACK. When the specifications are drawn in the Planning Division, the specifications writer considers the minimum equipment that will complete the work within the time limit fixed by the department. From experience he knows the necessary type of equipment, sizes of press, processes, lithographic, gravure, or relief, necessary binding facilities, and so forth.

The information contained in the questionnaires has been coded and tabulated to afford mechanical reference to these ends. While a specific size for equipment is developed by the specifications writer, the work code grouping is such as to direct into competition, equipment covering a broad range on both sides of the planned sizes. For

example, the use of 46-inch press equipment for a planned 32- by 42-inch sheet size may be considered by the specifications writer as most efficient. The job classification, however, would draw into competition those printing establishments which have a press size range from 21 by 32 inches to 38 by 50 inches, including flat-bed, rotary, and perfecting presses.

Complete lists have been made of firms having the various types of equipment competent to perform the several classes of work. These lists show all pertinent information as to equipment, manpower, and other relevant factors. When the specifications call for delivery of the work at points outside of Washington, the lists prepared for circularizing of bidders includes the firms usually within a competitive radius of that location. In view of the large number of printers, all of them cannot be circularized on each job so that a system of rotation is employed. Circularization is employed by the Government Printing Office to supplement the general advertisement on the bulletin board and thus guarantee competition.

The CHAIRMAN. Is it desirable that the Government Printing Office perform the preliminary work, such as composition and the preparation of plates?

Mr. GIEGENGACK. Yes, it is highly desirable. With the copy being prepared in Washington, and with the setting of type in the same city, time can be saved in making corrections. It would be poor business to send the copy out of the city before it is made into pages and plates, thus adding to the possibility of delay.

The CHAIRMAN. How much of the Treasury advertising literature is printed at the Government Printing Office?

Mr. GIEGENGACK. Most of the poster work, pamphlets, and stamp albums, involving color work, are secured from commercial printers and lithographers through contracts made by this Office.

The CHAIRMAN. In the testimony taken at Detroit a statement was made that the Ordnance Department in one of its field offices had extensive lithographic equipment on which they printed enough copies for their use. The witness said that after they got through running the job the negatives were forwarded to the Government Printing Office so that it could print any additional copies required. Is this correct?

Mr. GIEGENGACK. I noticed that statement in the testimony. No such arrangement, however, exists between the War Department and the Government Printing Office. Where reruns are anticipated, departments ordinarily retain their own plates, so that they may be available when needed. The departments do not send them to the Government Printing Office.

The CHAIRMAN. In one of the letters submitted to this committee—I think it was from the Chattanooga Printers' Club—a suggestion was made that orders be placed through a printing coordinator. Would such an arrangement be desirable?

Mr. GIEGENGACK. I see no advantage in the proposed arrangement, either from the standpoint of the printers or from that of the Government. Bidding is now extensive, so that such action is unnecessary in the distribution of printing contracts. It would only entail needless expense to local printers and increase the possibility of delay.

The CHAIRMAN. You mentioned the comparison of costs of work in the Government Printing Office with those of commercial printing establishments. In general, do you recall the details of your findings in that study?

Mr. GIEGENACK. Yes. I have here an excerpt from the hearings on the legislative branch appropriation bill for 1942 which discussed the findings in the study:

The results of the opening of the first bids requested by the Government Printing Office on defense work were a revelation to all concerned. We in the Government Printing Office fully expected them to be high, but they were much higher than was expected. So high, in fact, that no contracts could be awarded thereon (p. 233).

Since October approximately 1,000 contracts have been entered into on a competitive-bid basis, under the conditions outlined above, covering almost every type of book and job printing and many specialties. The value of these contracts amounted to nearly \$2,000,000. The individual bids show variations in charges as high as 200 percent above our costs. The average is approximately 20 percent above our costs. Since the opening of the first bids, which clearly indicated that commercial prices were higher than ours, we have used every means to secure lower bids. We realize that many of the agencies have limited printing appropriations, had planned their work based on our prices, and would therefore be short of funds to meet their printing needs if we contracted for their work at prices higher than ours. * * * (p. 288).

I do not wish to imply that no bids were received quoting prices lower than ours; our records show that approximately 72 percent of the contracts were higher than our charge would have been, 13 percent were equal, and 15 percent were lower. Your own experience in these matters as businessmen indicates the wide variations in quotations that are received due to numerous technological and economical conditions existing in a commercial market or in a particular plant at the time bids are made.

To answer the question as to comparable costs I can now say specifically that the facts before us prove that the Federal departments and agencies—the Government as a whole—unquestionably save money by coming to the Government Printing Office for their printing needs. If the \$20,000,000 worth of printing now annually procured by the various departments and agencies from the Government Printing Office were procured by these agencies individually from commercial sources, the Government's printing bill, instead of being \$20,000,000 would be at least \$24,000,000 * * * (p. 292).

The CHAIRMAN. In the early part of your statement, I believe you referred to the fact the Joint Committee on Printing may permit the Public Printer to authorize a department to purchase printing directly for its own use where the Government Printing Office is not equipped to execute the work.

Mr. GIEGENACK. There is a class of transactions in which the Government Printing Office releases printing to departments for direct purchase from commercial suppliers. To secure authority for such action, a requisition must be submitted to the Government Printing Office containing a description of the work required to be done. As a rule, releases are granted to departments for purchasing certain types of specialty printing in connection with which there is usually a standard or general schedule price. Included in this category are continuous forms, fan-fold forms, snap-out forms, tabulating cards, filing cards, visible index records, and similar specialty articles.

The CHAIRMAN. Some mention was made in the hearings at Detroit that the Army and Navy had undertaken to set up printing establishments in certain field posts. What do you know in regard to this movement?

Mr. GIEGENACK. The field printing plants of the military services are, of course, under the heads of those departments, and the best information can come from that source. In general, I know that the

War and Navy Departments have authorized printing or processing plants in certain air fields, arsenals, and Army posts.

In the testimony taken in Detroit, some complaint was voiced of the establishment of new plants while commercial printers were unable to obtain work. If I recall correctly, one of the witnesses pointed out that one of the military services had undertaken to purchase printing equipment at a cost of about \$300,000. He contended that when printing facilities are idle throughout the country it is not a time to establish additional units or enlarge those already in existence. I understand that this movement was later abandoned on order of the War Production Board. Supervision of such a plant is not, of course, under the Public Printer.

The CHAIRMAN. Does the Government Printing Office have much confidential work?

Mr. GIEGENACK. We have a considerable volume of work that may be considered confidential, restricted, and secret. On the secret work we have the entire operation set apart from the regular run of business. It is carefully supervised to avoid any disclosures of information. No leak has ever occurred. In letting out printing jobs the Government Printing Office always reserves these types of work for performance in its own plant. All employees engaged in this work are specially investigated by the Civil Service Commission.

The CHAIRMAN. Approximately how many requisitions does the Government Printing Office receive annually and what is the status of the work?

Mr. GIEGENACK. This year it is estimated that the Government Printing Office will receive approximately 100,000 departmental requisitions for printing, binding, and blank-book work. Because of this large number of jobs, current incoming business runs fairly uniform in volume, although at times it may fluctuate due to exceptionally large orders for military, financial, or other special programs.

The condition of work in the plant is carefully watched. Production is under the direction of a plant manager and a planning board who supervise all plans and operations. Every job is controlled at least at four points: (1) Submission of proof; (2) preparation of plates; (3) completion of presswork; (4) time of delivery.

The schedules are studied in relation to plant production, to meet deliveries within the time limits specified by the departments. Through constant checking on work in process, despite the large increases in business, the Government Printing Office is making deliveries on requisitions to departments at the same rate of speed it did a year ago.

The CHAIRMAN. If I recall correctly, a statement was made that the employees in the Government Printing Office have been increased from 3,000 to 8,000. What increase in personnel has taken place in your plant during the past year or so?

Mr. GIEGENACK. In reading the testimony I noted that the chief of the Small Business Section, Mr. Guy Holcomb, indicated an unnamed employee he had consulted on the matter said when he went with the Government Printing Office 7 years ago there were around 3,000 employees, and that today there are approximately 8,000. Later, the head of a printing concern, Mr. Forrest H. Wainscott, apparently depending on the earlier statement, repeated the same figures, leaving the implication that because of the war we had increased our force by

5,000 employees. Nothing could be further from the truth. Had these gentlemen taken the trouble to apply to this Office we would have been glad to give them the facts. When I became Public Printer in 1934, the Government Printing Office had 4,795 employees. Between that date and the close of the fiscal year 1940, due to increased governmental activities, such as the Social Security Board, the relief, and loan agencies, the force was increased to 7,172. At the present time there are 7,470 employees on our rolls, so that during the 18 months preceding the declaration of war, and the 3 months following, we have taken on only 298 employees, a figure very much smaller than that quoted by the gentlemen.

The CHAIRMAN. Were the increases you made in machinery during the years 1941 and 1942 exclusively attributable to replacements?

Mr. GIEGENGACK. Yes; entirely so. This can be ascertained by the fact that on the basis of a \$8,000,000 equipment and machinery investment, the expenditures for machinery were \$297,644 in 1940; \$294,739 in 1941; and \$147,057 for the first half of the current fiscal year 1942.

These amounts represent barely the normal amount of annual replacements for machinery. The estimates for these purchases are included in our annual budget, and authorization for the amounts are expressly set forth in the appropriations.

The CHAIRMAN. Do you desire to ask some questions, Mr. Halleck?

Mr. HALLECK. Yes, I would like to ask some questions, although I want it distinctly understood that I have no quarrel with the Government Printing Office as such. I think the people down there have been doing a good job.

One of the things we were talking about, Mr. Giegengack, had to do with your attitude with respect to splitting some of this work up among the little fellows. Well, personally I think, maybe in a lot of places in the Government we have been too much inclined to do that.

Is there any reason why it could not be done, other than the facilities involved, or the size of the Government departments or agencies, that they must deal with one large company as distinguished from smaller companies?

Mr. GIEGENGACK. The printing industry is a small business. When you speak of the small printers, they are very small. The largest printers are really small businessmen.

Mr. HALLECK. Here is what I have in mind. Last summer, when the Army started out to buy tanks, for instance, they let rather small orders to small manufacturers who could make delivery within the time limit. As the summer went on, orders were coming out in such tremendous volume that the little fellow was just completely shut out, and since then a lot of little plants that could be going along, be doing part of that work, where there were just a few really large concerns that could do that work.

Now, then, this committee, as I understand it, is charged with trying to do something for small business. Specifically, my question would be, Don't you think that in the interest of trying to help some of these smaller people—not the real smallest—I know some of them could not do one of these jobs—at least with a little more inconvenience and a little more work, and some of the other things that might go with it, might well be justified on the part of the Government?

Mr. GIEGENGACK. That is true. We would do it if we had the time, or could get the time, but we do not have the time, Congressman. Often we get jobs between 8 and 9, or midnight. We must deliver them at 8 o'clock in the morning.

Mr. HALLECK. Of course, I recognize that.

Mr. GIEGENGACK. On a large percentage of the work we can get maybe 10, 20, or 30 days' time for delivery.

Mr. HALLECK. I recognize that. On that sort of work, of course, you could not run out to Illinois or some seaport and try to get the job. I have reference to pamphlets that are ordinarily gotten out to be used in connection with different operations of the Government; posters were referred to in the Detroit hearing.

Mr. GIEGENGACK. Most of the posters are printed outside the Government Printing Office.

Mr. HALLECK. Matters of that kind, that will be used in different sections of the country where the supply is to be used in making the particular matter involved in that area, and where the stuff, after it is made, will be used. Has the Government Printing Office, in your opinion, sent as much of that out to those areas as it could have sent?

Mr. GIEGENGACK. Everything that it can send has been sent out. For instance, maybe I could explain. If a department indicates the point of distribution or point of delivery, we will place the contract as near the point of delivery as we possibly can on a competitive basis. We always do that.

Mr. HALLECK. Some fellow at the Detroit meeting, and if you were at the hearing you will know I was there, and he complained about, as I remember it, having to bid on a job, the paper to be furnished from Washington, and he took the position that that put him at a distinct disadvantage.

Mr. GIEGENGACK. That is true.

Mr. HALLECK. Competitive disadvantage.

Mr. GIEGENGACK. That is true.

Mr. HALLECK. Has that situation been prevalent?

Mr. GIEGENGACK. I have covered that, I think, in some of the answers, but I may say a little more on that subject.

The Joint Committee on Printing makes all contracts for paper with the paper mills or the dealers for the Government Printing Office. In those contracts the paper mill has 30 days for delivery. We have to anticipate the use of equipment or paper on certain types of work. That only can come from men who have been there for years and know about how the paper runs. We have to order 30 days in advance to take advantage of the prices that we can get through the contracts for delivery of paper.

Now, whenever we have a big job that we place in the field, we deliver the paper direct to the printer. That is the most economical way.

Those are the jobs these fellows are complaining about. We want to get out our paper supplies. Often we have that paper in our warehouse. That is the reason of picking up paper, shipping it to them, and having them print it. Then they ship it back to us.

Mr. HALLECK. Now there is one thing I would like to inquire about. I notice in your statement you give figures for the amount of printing and I see that the value of it in 1940 was something over \$20,000,000, and in 1941 that jumped up to—

Mr. GIEGENGACK. \$28,000,000.

Mr. HALLECK. \$28,000,000, and now you anticipate that in 1942 it will be \$50,000,000.

Mr. GIEGENGACK. About \$50,000,000.

Mr. HALLECK. On March 1 were you reaching \$50,000,000 annually?

Mr. GIEGENGACK. March 1 of this year?

Mr. HALLECK. Yes.

Mr. GIEGENGACK. I think pretty close to it. That is the estimated figure for 12 months. The fiscal year ending in June, you know, anticipating what might come from the War Department and the Navy.

Mr. HALLECK. Now that 1940 figure of \$20,000,000; does that mean work done in the Government Printing Office as distinguished from work sent out and done outside?

Mr. GIEGENGACK. No; that includes what has been done inside and outside.

Mr. HALLECK. How much of that was done outside the Government Printing Office; of that \$20,000,000?

Mr. GIEGENGACK. I think about 10 percent.

Mr. HALLECK. About 10 percent?

Mr. GIEGENGACK. Yes.

Mr. HALLECK. Now, of the \$28,000,000—

Mr. GIEGENGACK. Remember, sir; 10 percent of \$20,000,000, making \$2,000,000, is more than \$2,000,000 worth of printing, because we supplied the paper. Paper, in many cases, is as much as 50 percent of the job.

Mr. PLOESER. Will the gentleman yield?

Mr. HALLECK. Yes.

Mr. PLOESER. You say you can supply the paper more economically?

Mr. GIEGENGACK. Yes, sir.

Mr. PLOESER. Does the Government buy this paper that they furnish?

Mr. GIEGENGACK. That is right.

Mr. PLOESER. In the case of shipment of paper to Washington after it is purchased, and shipped from Washington to the printer and back from the printer to Washington, making three shipments of paper, do you say it is still more economical than to furnish it to the printer in the first place?

Mr. GIEGENGACK. No; I did not say it was more economical. Those are special instances. In the case of a rush job, we may have paper in our plant, and the job printer would not have sufficient time to get the paper from the mill, and then make delivery to us, either in the field or in the city of Washington.

Mr. PLOESER. In doing that you must anticipate your need for purchasing this paper, when you place the paper order you must anticipate the purchase?

Mr. GIEGENGACK. Could we anticipate there was going to be rationing of sugar 6 months ago?

Mr. PLOESER. I don't see where that has anything to do with it. The fact is that you have been doing this for years, before we went on rationing.

Mr. GIEGENGACK. We did not have the war conditions then.

Mr. PLOESER. No; but you still had this proposition before, didn't you?

Mr. GIEGENGACK. No.

Mr. PLOESER. You mean you never supplied paper before the war?

Mr. GIEGENGACK. We never sent contracts out before the war, only during the defense program.

Mr. PLOESER. When you did send it out before the war did you ever supply the paper?

Mr. GIEGENGACK. We always supplied the paper from the mill.

Mr. PLOESER. You said you didn't before.

Mr. GIEGENGACK. We did not ship the paper from here previously. We shipped direct from the mill, because we had sufficient time—

Mr. PLOESER. How many carloads of paper have you here now?

Mr. GIEGENGACK. In carloads I cannot say. Our paper stocks are worth possibly a couple of million dollars. We use about 16 carloads a day.

The CHAIRMAN. How many tons to a car?

Mr. GIEGENGACK. Forty thousand pounds to the car.

The CHAIRMAN. Twenty tons.

Mr. GIEGENGACK. You cannot figure the cost that way. There are hundreds of items at many different prices. I can put a statement in the record, if you like, as to how many carloads we have.

Mr. PLOESER. That is all right.

Mr. GIEGENGACK. Would you want that statement in the record?

Mr. PLOESER. I would like to know this: What is the storage capacity you have for paper here; how much paper have you in that storage; what your daily use of paper is at the Government Printing Office; how much paper you are shipping out on the contracts which you are letting; and how many carloads of paper are tied up in the yards out here that you cannot get in because you have no place to put them?

Mr. GIEGENGACK. I can answer that.

Mr. PLOESER. I would like to have you answer it.

Mr. GIEGENGACK. There are no cars tied up in the yards.

Mr. PLOESER. You do not need to do it here, but I would like to have all of those questions answered for the record.

U. S. GOVERNMENT PRINTING OFFICE

Comparative statement of purchases of paper and materials for the full fiscal year 1941 and the first 8½ months of the fiscal year 1942

[Prepared as of Mar. 18, 1942]

Item	Total purchases, fiscal year 1941	Total purchases, first 8½ months, fiscal year 1942
Stationery and office supplies.....	\$23,715.71	\$36,252.83
Medical and hospital supplies.....	955.80	1,039.30
Scientific and educational supplies.....	1,293.62	1,491.91
Reference books.....	351.12	872.37
Fuel (including all gasoline).....	11,249.94	10,772.56
Sundry supplies.....	354,323.58	461,889.65
Mechanics supplies.....	70,309.97	33,730.00
Paper.....	9,709,355.63	15,656,894.78
Envelopes.....	165,073.26	343,702.30
Blottery materials and supplies.....	203,230.19	230,705.97
Olives and ink supplies.....	104,119.95	123,823.16
Platemaking and photograving supplies.....	99,092.09	18,715.31
Metal and metal supplies.....	118,742.55	96,223.43
Building supplies.....	73,314.22	33,313.77
Total.....	10,876,392.46	17,133,450.45

*Comparative statement of storage space for paper for the full fiscal year 1941
and the first 8½ months of the fiscal year 1942*

[Prepared as of Mar. 18, 1942]

	Square feet, fiscal year 1941	Square feet, first 8½ months, fiscal year 1942
Government Printing Office Warehouse:		
Building No. 1.....	94,306	94,306
Building No. 2.....	93,212	93,212
Commercial warehouses.....	31,000	145,000

¹ Approximate.

*Comparative statement of freight car receipts of paper for the full fiscal year
1941 and the first 8½ months for the fiscal year 1942*

[Prepared as of Mar. 18, 1942]

	Total cars, fiscal year 1941	Total cars, first 8½ months, fiscal year 1942
Total number of cars received.....	3,312	3,774
Average number of cars received per day in warehouse.....	13	15
Average number of cars routed per day direct to printers and departments.....	4	4
Cars on hand in yard, Mar. 18, 1942.....		141

¹ The number of cars on hand is equivalent to between 2 and 3 days' supply of paper

The CHAIRMAN. Did not some columnist state you had a couple of hundred box cars—

Mr. GIEGACK. Yes. A big shipment of paper came in over a week end, I think it was. They figured it to have been at least 200 carloads. That would not be a big surplus for us. In the sugar rationing card, itself, there were 300 carloads of paper on that job.

Mr. PLOESER. You didn't split up the sugar rationing?

Mr. GIEGACK. I am just explaining how much paper was consumed in comparison.

Mr. PLOESER. The question is you did split it up.

Mr. GIEGACK. The sugar rationing, we did split up. We shipped paper to the plants that printed it. The rationing card was printed in 23 plants in the United States. Distribution was made from the printing plants to every country schoolhouse; 200,000 Government bills of lading were made out. That is the way we want to handle all work, if we get the time and instructions.

Mr. PLOESER. You will have lots of work to do over there, you will have more to do, for your own employees to do it.

Mr. GIEGACK. We have a good-sized planning department. They are specialists in the game, in figuring jobs. We cannot take people from the outside, as a group, for instance, and train them for that purpose. The writing of specifications is highly technical.

Mr. PLOESER. This is not for the record—

(Discussion off the record.)

Mr. HALLECK. I am going to be direct about it; I will forget my early legal training.

Here is the thing that strikes me as peculiar about these figures, but you can probably explain it.

You had a personnel in 1940 of 7,172; in 1941, 7,149; and on March 1, 1942, 7,470. On March 1 you are up 300 over June 30 of 1940. Now in the same period of time, the outfit down there were hitting from a \$20,000,000 clip to a \$50,000,000 clip annually.

Mr. GIEGENACK. That fifty million is contemplated for the full fiscal year as an estimate.

Mr. HALLECK. I asked you if you thought on March 1 you would reach the clip of \$50,000,000 a year and you said you were. I just cannot help but be a little amazed at those figures. Either they were not working very hard down there, that 7,000 men which you had in June 30, 1940, or they are working awfully hard now, because they have increased their production from \$20,000,000 annually to a rate of \$50,000,000 annually, with an increase in personnel of 300.

Mr. GIEGENACK. We are sending out a lot of work.

Mr. HALLECK. Well, I have no doubt but what you are, but my whole interest in this thing has simply been this, and I think the questions that I asked at Detroit will bear that out, that if there is work that can profitably and properly be done in the private establishments of the country for the Government, I think that those facilities should be utilized, not only because it might in the long run be good for the Government but it certainly would, in some measure, relieve the impact of the war effort on this particular line of small business.

Mr. GIEGENACK. We are doing just that. Nearly 2 years before this thing happened we personally made a survey of the entire printing industry in preparation for just such emergency.

Mr. HALLECK. I am not saying it is not being done. There were some people there at Detroit apparently complaining—

Mr. GIEGENACK. Complaining because the work was not all going to Detroit?

Mr. HALLECK. With respect to that, I would like to state that I do not come from Detroit and I hold no particular brief for Detroit. I might explain that that was the reason probably why the committee went to Detroit, because the situation there is a little more acute than it is in some other areas, although there is no question but what printers all over the country have felt the impact of the war effort in their business.

Mr. GIEGENACK. It is going to be worse.

Mr. HALLECK. Now, just one thing further: Has there been anywhere any suggestion that this work should not be supervised and controlled by the Government Printing Office? I don't recall any suggestion like that.

Mr. GIEGENACK. I think there was something said about Government agencies doing their own work instead of coming through the Government Printing Office.

Mr. HALLECK. That may have been suggested; I don't recall it except for what the Army and Navy might be doing. My recollection of it was—and I have not recently read those hearings—that they wanted the work to be cleared through the Government Printing Office, and that part of it needing to be done by the Government to be done by the Government Printing Office, and the overplus be cleared through the

Government Printing Office to various people over the country who could do the job.

Mr. GIEGENGACK. That is what we are doing.

Mr. HALLECK. I don't know as it is important, but no one wants to bankrupt the Government. We want to do things as cheaply as we can, but when you referred to the ability of the Government Printing Office to do this work cheaper than it can be done in commercial plants, what items of cost did you take in account in determining Government costs?

Mr. GIEGENGACK. The costs that enter into every job include manufacturing—over-all expenses—which would constitute wages, supplies, maintenance of buildings, heat, light and power, depreciation, and general administrative services.

Mr. HALLECK. Did you figure anything for taxes?

Mr. GIEGENGACK. I have figured nothing for taxes.

Mr. HALLECK. Did you figure anything for rent of buildings?

Mr. GIEGENGACK. I have figured nothing for rent or depreciation.

Mr. HALLECK. So, then, as a strictly business proposition, figuring dollars and cents, that is not a fair comparison, because certain items of cost that have to be met by private printers are not met in the Government Printing Office.

Mr. GIEGENGACK. By the same token, we have expenses that private industry does not have. We have a higher rate of wages to our employees than private industry. Congress enacted laws to give all Government employees 28 days' annual leave, plus 15 days' sick leave. That in itself adds to our overhead \$1,000,000 a year.

Mr. HALLECK. Now, then, one other final thing: Do you have any further explanation as to why 7,172 men in 1940 were turning out \$20,000,000 worth of stuff, and with the personnel going up only 300 to 7,470, on March 1, you were producing at the rate of \$50,000,000?

Mr. GIEGENGACK. Except that we are placing a lot of outside work.

Supplemental note.—The records of the Government Printing Office show that the number of employees as of June 30, 1941, was 7,149; and as of March 1, 1942, it was 7,470. The total charges for services and materials furnished to departments and establishments for the fiscal year 1941 amounted to about 28½ million dollars; for the fiscal year 1942, on the basis of the trend of incoming orders, it has been estimated that the volume of work, including printing to be purchased commercially, will probably amount to \$50,000,000. (This amount gives effect to the higher cost of paper and materials.) An increase in the dollar value of printing produced does not necessarily mean that there must be an equivalent increase in man-hours or personnel. As heretofore pointed out, when the volume of work increases up to the designed capacity of the plant, the cost decreases. This is what has been taking place during the fiscal year 1942.

As stated earlier in the hearing, it is the policy of the Government Printing Office to release work to commercial printers where such jobs cannot be expeditiously or economically performed with existing facilities. If the present trend continues, the Government Printing Office expects to place about \$10,000,000 of work with commercial printers. Paper and other supplies for this work will probably cost an additional \$6,000,000. On the basis of present calculations the remaining \$34,000,000 of work can be performed by the Government Printing Office without any substantial increase in the personnel or expansion of the plant.

Mr. HALLECK. I will ask you, in order to make the picture clear, about the percentage of outside work that was involved, and as I remember your original statement was about 10 percent. How long has that figure of 10 percent held true?

Mr. GIEGENGACK. You didn't ask me, sir, how long that 10 percent applied. I understood you to ask what percentage for the entire time and I said 10 percent.

Mr. HALLECK. I thought in your original statement you figured 10 percent of this work could be.

Mr. GIEGENGACK. That is probably at least 15 percent now; maybe between 15 and 18 percent. I cannot tell you that offhand.

Mr. HALLECK. Of course, as I say, if I had followed my legal inclination and gone through this painstakingly I would have inquired in regard to the percentage of outside work, because that definitely is part of the formula, but even if it were 15 percent, without some rather comprehensive explanation it would seem to me that there is quite a disparity there.

I am not saying if it is there that there is anything the matter with it. Mr. GIEGENGACK. There is nothing wrong with our personnel. I will vouch for that. Production records in our Office will compare with the best production records in any printing institution in the United States. That is definite. Our men are on the job. They have to work in order to get their production in setting type. That applies to proofreaders as well, and to pressmen. Our production records compare favorably with others. We know, because one of the groups came to see me; their prices were 2 or 3 percent higher than ours; we went into them and broke them down; and I told them where the errors were. It is a technical job to figure production. In a big printing office there is much work in process that cannot be billed only at certain times.

Mr. HALLECK. I am not challenging your efficiency; as a matter of fact, I am rather marveling at this, at this increase in efficiency, and if that is what it is, why, I am just happy that it is there. If 7,000 men, roughly speaking, can increase their productive efficiency by 150 percent, or almost that much, and particularly when your statement indicates that you have not put in a lot of new machinery—I think whatever there has been has been largely in the nature of taking care of depreciation—

Mr. GIEGENGACK. We have increased production by improved equipment, as a matter of fact, since I came here.

Mr. HALLECK. Now, I take it there would be no inclination on your part to increase the facilities of the Government beyond what is reasonably necessary, so as to enable work, that could fairly and reasonably be done, to be done in the commercial plants of the country.

Mr. GIEGENGACK. I made that statement already, I think, but I emphasize it again. I don't want to increase the plant. We have decreased the number of units instead of increasing them, and made them more efficient. We have thirty or forty less typesetting machines, still we are getting greater production. I went in the commercial field over a year and a half ago to get it into such shape that when we were faced with this war emergency we would not be loaded down with a lot of equipment.

Mr. HALLECK. Well, I think that attitude is commendable, because not only would that cut out throwing much needed work to some commercial plant, but in addition would require the use of critical materials to build the additional machinery you would have to have at a time when we cannot afford this expenditure of material.

Mr. GIEGENGACK. That is correct.

Mr. HALLECK. I think what you have indicated that you are trying to do is all that anyone could ask.

Mr. GIEGENGACK. We are trying to avoid anything that may in any way impede the war effort through the use of scarce materials. In fact, I bought a second-hand press about a month ago which was for sale in Washington at a sizable reduction from the new price.

Mr. BULWINKLE. Mr. Giegengack, since 1941, how much in the way of replacement of machinery—have you replaced much since that time?

Mr. GIEGENGACK. The expenditures that I referred to were practically all replacements.

Mr. BULWINKLE. Yes; but you only read 129 slug-casting machines now against 175 in 1939.

Mr. GIEGENGACK. Yes. There was one time that we got rid of, in rearranging and streamlining our pressroom, probably traded in, something like 14 or 16 of our old presses of a vintage of about 40 years. In their place we installed maybe six to eight up-to-date machines, doubling the output. That was the way we modernized.

Mr. BULWINKLE. How many more employees do you have for your eight new machines than the old?

Mr. GIEGENGACK. We have less employees. All this equipment we are putting in is streamlined, automatic, high-production type.

Mr. BULWINKLE. Does not that account for some?

Mr. GIEGENGACK. That accounts for a part of the difference. I can get that exact answer if you wish it.

Mr. KELLY. Mr. Giegengack, I was one of the members who also was present at the Detroit hearing—

The CHAIRMAN. He acted as chairman of the Detroit hearing.

Mr. KELLY. The printers in Detroit very largely relied—say 80 per cent of their business came from the automotive industry, which is no more. They are naturally seeking some of this Government work that is not secret matter or work that is nonessential, that the printing can be distributed to printers throughout the Nation. You mentioned there about \$10,000,000 that might be available for outside printing, but I believe the largest concern over there had a total output of about \$384,000 a year. They claim that with negotiated contracts, that they could do the printing much cheaper than the Government. Now, of course, after listening to that testimony, you say it is not so.

Mr. HALLECK. Of course, the Government got the jump on them because the Government is not charged with lots of charges—

Mr. GIEGENGACK. The biggest jump the Government has on them is continuous operation on a three-shift basis.

Mr. HALL. Well, it is like comparing a public utility to a private utility. You can argue back and forth—

The CHAIRMAN. Now you are getting into T. V. A.

Mr. BULWINKLE. That is not a fair comparison.

The CHAIRMAN. I suggest, Mr. Giegengack, that you place in the record at this point a comparison of the private industry, showing the items of expense that private industry must take into consideration that you don't, and what you must take into consideration that private industry does not.

Mr. GIEGENGACK. I can have compiled by statisticians in our Computing Section a hypothetical picture of what this plant would realize and charge as a private concern operated by stockholders, paying the local wages of labor organization, doing that amount of business, and taking into consideration interest, dividends on the investment, social-security taxes, real-estate taxes, and all that sort of thing included in costs to make a hypothetical picture.

The CHAIRMAN. Yes; I think it would be interesting.

U. S. GOVERNMENT PRINTING OFFICE

Statement of operating results for the fiscal year 1940

(A hypothetical statement as it would be prepared in the average commercial establishment;)

Income:	
Net sales, printing and binding.....	\$20,150,203.72
Miscellaneous sales, metal, waste paper.....	63,912.24
Total income.....	20,201,115.96
Cost of sales:	
Wages, per diem employees.....	\$7,829,002.94
Salaries, annual employees.....	1,348,851.60
Additional salaries to executives.....	\$2,000,000.00
Materials.....	6,314,781.41
Depreciation.....	607,623.01
Total cost of sales.....	16,343,248.96
Gross profit.....	3,858,867.00
General expense:	
Social-security taxes, 4 percent.....	\$77,117.78
Employers' liability and compensation insurance, 1 percent.....	64,279.43
Property taxes \$17.50 x 70 percent of \$12,000,000.....	147,000.00
Insurance on all property.....	16,318.28
Selling expense, 4 percent.....	608,078.14
Interest on funded debt, 4 percent on \$1,000,000.....	160,000.00
Total general expense.....	\$1,600,723.65
Net operating profit.....	2,258,143.35
Nonoperating taxes:	
Federal income tax, 10 percent less 2½-percent dividends.....	\$14,721.50
District of Columbia income tax, 5 percent.....	112,007.16
Capital-stock tax, \$1.10 on declared value.....	23,450.01
Total nonoperating taxes.....	451,078.67
Available for dividends.....	1,807,064.68
Dividends:	
Dividends on 6-percent preferred, \$4,000,000.....	240,000.00
Dividends on common 6 percent, \$12,000,000.....	720,000.00
Added to surplus.....	847,064.68

¹ As it would be if the Government Printing Office paid the same wage scales, and only the same holiday, sick leave, and vacation pay as afforded by commercial establishments in the Washington area. (Source: Union Wages and Hours in the Printing Trades, June 1, 1940, p. 20; serial No. R. 1236, Bureau of Labor Statistics.)

² This is purely a hypothetical figure to place executive salaries in the Government Printing Office on a comparable basis with commercial establishments which in 1937 was 33.8 percent of all salaries and wages. (Source: Road Maps of Industry, No. 194, National Industrial Conference Board.)

³ All figures are hypothetical and based upon the figures reported by a large commercial establishment in the 1940 edition of Moody's Manual of Investments and adjusted to tax requirements of the District of Columbia.

Mr. HALLECK. I want to interject something. I think, after all, the real issue is what part of this work can properly be let out to private concerns.

The CHAIRMAN. One of the main complaints is that it is unfair competition.

Mr. GIEGACK. We are letting out on contract all that we possibly can. We are pushing orders to the utmost, and will put out more if we can, without cutting the efficiency of our own plant. We are going to continue doing that, but on a competitive basis. Now, the biggest kick in the testimony is emphasized by their own witnesses—no competition. They said in there when they bid on work in Chicago, Mr. Kelly's town, they never get the job, because the Chicago companies over there do it cheaper.

Mr. KELLY. I can answer that also; the reason for that is that these printers over there are not relying upon one industry for printing. It is placed all over the country, shopping for business.

Mr. GIEGACK. Not only that, but they have a big range of equipment, whereas the men in Detroit have mainly one type of

equipment. When they bid on our work their prices were higher than the bids of printers who have different kinds of equipment.

Mr. KELLY. I just want to ask you this question. This Mr. Winter who testified in the hearing in behalf of the Printers Association of Detroit, stated this, that the two largest printing firms in the whole world are the Government Printing Office and the Bureau of Engraving. In addition I am told that the Government owns and operates at least 100 printing plants of one kind and another, 36 of these being in various Army camps.

Now, do you know that to be true, that there are printing plants being operated—

Mr. GIEGENGACK. Those printing plants do not come under my jurisdiction.

Mr. KELLY. They do not?

Mr. GIEGENGACK. No, sir.

Mr. KELLY. And Army camps would not either.

Mr. GIEGENGACK. They do not come under my jurisdiction.

Mr. BULWINKLE. Do you know how many there are?

Mr. GIEGENGACK. I do not.

The CHAIRMAN. We have a witness that will be able to tell us.

Mr. GIEGENGACK. That work comes directly under the joint committee.

Mr. KELLY. This \$22,000,000 increase in the appropriation of the Printing Office, I notice yesterday in the bill that came before the House there and was passed, that the increase was from \$28,000,000 to approximately \$60,000,000, by the chairman of the subcommittee, but your figure here is \$50,000,000. What proportion of that is Army work?

Mr. GIEGENGACK. Oh, I cannot break it down here. I would say that about 80 percent of our work today has to do with war activities. That includes many agencies—the Maritime Commission, the Army, the Navy, the Treasury, and other agencies.

Mr. KELLY. Well, in the complaint that the printers were rendering in Detroit, and we single out Detroit because they are the hardest hit, I guess, of any city in the country so far, the printers are suffering a loss of business of about 80 percent.

Mr. GIEGENGACK. They may suffer much more.

Mr. KELLY. That the purchase of new equipment—that the Government is buying new equipment where their equipment could be purchased. Now, under the War Agencies Act the Government has the right to requisition machinery as well as manpower to carry on this war effort. Do you know that to be true or not?

Mr. GIEGENGACK. It is not true. We cannot buy equipment any better than other printers can. We are not treated as a war defense agency. We are considered as other printers, and we have got to go through the same priority routine in getting an order as any one of the others. Perhaps I can explain it better. We ran out of wire one night and had to apply to the War Production Board for a priority rating to get the material.

Mr. KELLY. I was interested in your statement, about the paper situation, because I think you said that the paper was shipped to Washington and then shipped back again to where the printing was to take place—

Mr. GIEGENGACK. It has been so shipped in some instances.

Mr. KELLY. Their main objection was due to the increase in freight cost. They figured that there was a waste of money by shipping the paper down here and then shipping it all over the country, wherever the job was to be completed.

Mr. GIEGENGACK. Might I say this in answer to that: On some of these jobs, such as the sugar-rationing cards, the paper was to be delivered to the printer. Even though the quotation was for the paper delivered at their plant, the Detroit printers were still high as compared with other bidders.

Mr. KELLY. It must be like the scrap-iron people in the "Pittsburgh-plus."

Another question I would like to ask. Maybe you can answer: These printing—these ordinary printing-office contracts, do they have range—

Mr. GIEGENGACK. No, sir.

Mr. KELLY. That is all, Mr. Chairman.

The CHAIRMAN. All right, Mr. Hall, would you like to ask some questions?

Mr. HALL. No.

Mr. PLOESER. Well, a moment ago you said that if this entire \$25,000,000 worth of printing increase is to be let out to private industry it would only amount to about 1 percent of the entire business of the industry.

Mr. GIEGENGACK. One percent.

Mr. PLOESER. One percent. Don't you feel, however, that the Government should refrain, if the cost is within reasonable bounds, refrain from doing anything that private industry can do for the Government? Is that your thought?

Mr. GIEGENGACK. We have always done that. It is not new with us, where it is in the interest of the Government.

Mr. PLOESER. No; but you are having this tremendous increase in work. Now, I should think it would be your intent and your action to try to get this into private industry as much as you can, and try to do as much of this as you can.

Mr. GIEGENGACK. We always plan to do so, where the Government rules and regulations permit. The law says that anything we cannot handle, any surplus printing, in an efficient economical way and within the time limit, can be procured commercially.

The CHAIRMAN. Will you yield just a moment?

Mr. PLOESER. Yes; certainly.

The CHAIRMAN. Obviously, we cannot finish this morning. I wonder if it would meet with the favor of the committee and Mr. Giegen-gack and the gentlemen who are here from the Army and Navy to come back tomorrow morning at 10:30.

Mr. BULWINKLE. Better make it 10.

The CHAIRMAN. Now will those who are here from the Army and Navy give us their names so that we will know?

Mr. Lowe, is he here?

Mr. LOWE. Yes.

The CHAIRMAN. Mr. Lehman, is he here, and Commander Shook?

Mr. GIEGENGACK. I have an appointment in the morning, sir.

The CHAIRMAN. He says he cannot be here tomorrow morning. Is it more important than this committee hearing?

Mr. GIEGENGACK. The appointment relates to some work I am trying to get out.

The CHAIRMAN. I will leave it up to you.

Mr. GIEGENGACK. I have two groups of printers coming in, one at 11, and another at 12. Could I finish now?

The CHAIRMAN. It is almost 12; there is a matter coming up on the floor, some of the members want to be there.

Mr. BULWINKLE. Does anybody want to ask him anything more?

Mr. PLOESER. We have invited the Army and Navy people over here this morning. If we had done a little thinking about it, it would have been very plain that we could not have heard them all in an hour and a half. I hope that we won't do that again tomorrow morning and have these men who have other duties to perform just sitting around here.

The CHAIRMAN. I agree with you that that is good hindsight advice. I thoroughly agree with that. We just did not contemplate taking so much time with the Public Printer.

Mr. HALL. Mr. Gieengack, in your survey of printing facilities throughout the country, did that survey cover only those plants which particularly did job printing?

Mr. GIEGENGACK. Jobbing, and also the combination plants you have in mind, such as the weekly paper and the daily paper which have job-printing plants.

Mr. HALL. What I have in mind is this: When we were considering the tire question, this committee felt that where businesses could live without selling tires that the tire business should go to plants that existed by reason of selling tires only. Now, in your situation, apparently, some of the printing goes to plants where job printing perhaps is a side issue to some other business that they do.

Mr. GIEGENGACK. Very little of our work goes to such plants. Those plants have put on an organized effort, and they are really organized. That started with the Press Association in the State of Georgia, and they have written to all of their members that have these weekly and daily papers, job-printing plants, very small equipment, unfitted, for the most part, to do the work we have in mind.

Mr. HALL. Can the ordinary job printer who lives by job printing compete with the fellow who takes job printing merely to keep idle presses going where they are not being used for some other purpose?

Mr. GIEGENGACK. In some metropolitan localities the type of newspaper that has a job shop is very efficient. In most cases, however, it is not so capable. The job printer can compete, generally speaking.

Mr. HALL. He can compete?

Mr. GIEGENGACK. Yes.

Mr. HALL. But so far as your Office is concerned, you never look into that question at all; you give it to the successful bidder?

Mr. GIEGENGACK. First of all, the invitations are issued to those printers who, according to their questionnaires, have equipment that will fit the job. The contract is awarded to the successful low bidder.

Mr. HALL. That is all.

The CHAIRMAN. Any other questions?

Mr. PLOESER. Does your two and one-half billion dollar printing business include newspapers and magazines?

Mr. GIEGENGACK. I took that figure from the Census Bureau and also out of the testimony given by Mr. Otis Johnson before this committee.

Mr. PLOESER. You don't know whether it included that?

Mr. GIEGENGACK. I think he included publishing and printing. It took in certain types of papers.

Mr. PLOESER. Now would you give us, and enter it in the record, I don't care about your answering it now, I would like to know the number of your employees in your plant in 1930, 1932, 1934, 1936, and 1938.

Mr. GIEGENGACK. All right; we will supply that.

Mr. PLOESER. Thank you, Mr. Giegengack.

U. S. GOVERNMENT PRINTING OFFICE

Statement of personnel on the rolls as of the close of the fiscal years 1932, 1931, 1930, 1928

June 30, 1930.....	4,432
June 30, 1932.....	4,830
June 30, 1931.....	4,708
June 30, 1928.....	5,419
June 30, 1933.....	5,408

Mr. KELLY. Mr. Giegengack, these printing establishments that we called attention to, Mr. Winter maintained, or you do maintain, do not come under your supervision. Under whose supervision do they come?

Mr. GIEGENGACK. The Joint Committee on Printing.

Mr. KELLY. Thank you.

The CHAIRMAN. Mr. Lowe, would it be convenient for you to be back here in the morning?

Mr. LOWE. At what hour?

The CHAIRMAN. At 10:30. We will finish with you gentlemen as soon as we can.

Mr. BULWINKLE. I think probably some of these gentlemen have some hearings on the appropriations bill.

The CHAIRMAN. I regret we could not use you this morning, but we cannot always foresee the difficulties we encounter. I think we can finish with you in a short time. Would that be all right with you, Commander?

Commander SHOOK. Yes.

The CHAIRMAN. Would another hour be more suitable?

Mr. LOWE. It would be O. K. with me, unless the hearing before the Appropriations Committee—

The CHAIRMAN. I feel sure they will yield. What about you, Mr. Lehman?

Mr. LEHMAN. I think I can make it.

The CHAIRMAN. Well, suppose, then, you come at 11 o'clock and Mr. Lehman and the Commander will be here at 10:30, and Mr. Lowe, you may come at 11.

Mr. BULWINKLE. As a member of the Joint Committee on Printing, of which you have heard something today, after the remarks of the Public Printer, I would like to put in a paragraph from the report of the Legislative Committee on Appropriations on the legislative branch appropriations bill.

The CHAIRMAN. Without objection, it will be inserted.

In connection with this free service which the newspapers' render, they do render a lot of free service and they are to be commended

for it, yet they are given lots of privileges. You take the second-class mail, that is about \$100,000,000 a year, and a large part of it is on account of these free mailings of these newspapers and the free postage on their newspapers, and I think they can very well take that into consideration in rendering public service, because the public is rendering them some service, too. The fact is, that they could not very well stay in business without it. I think the newspapers are to be commended for partially passing that on in the way of low subscription rates and low advertising rates. Yet it is a public service that the public is rendering to them, and naturally they feel that the papers should reciprocate by rendering a certain amount of service free.

Mr. GIEGENACK. By the same token, if they do not try to sell bonds and stamps, and we lose this war, their papers are not going to be worth much.

The CHAIRMAN. That is right; thank you very much, Mr. Giegengack.

Mr. BULWINKLE. Mr. Chairman, I am a member of the Joint Committee on Printing. Yesterday I noticed in the report of the subcommittee on the legislative appropriations bill for 1943 a paragraph which praises the Government Printing Office and the Public Printer, and I desire to have it inserted at this place.

The committee desires to commend the "Board of Directors of the Government Printing Office" (the Joint Committee on Printing), the Public Printer, and their respective staffs and organizations for the expedition and efficiency attending the management of the Government Printing Office and the procurement of Government printing in commercial channels. The printing requirements for the war agencies and the agencies supplementing them are extensive and urgent. It is fortunate, indeed, that the Public Printer in this critical period is a man of long and successful experience in commercial printing, fortified with sound judgment, vision, and a patriotic zeal for protecting the interest of the United States. He has the loyal support and confidence of his personnel, and the Government Printing Office is an outstanding example of an agency "clicking" in carrying on its war-assignment load.

The CHAIRMAN. We will recess at this time until 10:30 tomorrow morning.

(Whereupon, at 11:55 a. m., a recess was taken to 10:30 a. m. Friday, March 20, 1942.)

SMALL BUSINESS IN THE UNITED STATES

FRIDAY, MARCH 20, 1942

SELECT COMMITTEE TO CONDUCT A STUDY AND INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM IN ITS RELATION TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.

The select committee met, pursuant to adjournment, at 10:30 a. m., in the caucus room, old House of Representatives Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman (chairman), Kelly, Hall, Halleck, and Ploeser.

The CHAIRMAN. Is Colonel Hoss here?

Colonel Hoss. Yes, sir.

The CHAIRMAN. Will you come around, Colonel?

Now you gentlemen can each come in and take a chair, perhaps you would like to sit around the table close, where you can all work. Now, will you gentlemen identify yourselves?

Colonel Hoss. I am Colonel Charles A. Hoss, this is Lt. Col. O. E. Cound, and this is First Lt. L. F. Goyette; we are from the Quartermaster General's office. This is Maj. A. M. Ehrlich, of the Ordnance Department.

The CHAIRMAN. How do you spell Ehrlich?

Maj. EHRLICH. E-h-r-l-i-c-h.

The CHAIRMAN. Gentlemen, we are looking into the question of printing, with reference to its effect upon private industry during the war. Charges have been made that the Army and Navy have been unnecessarily establishing printing plants at places where the local printer could do the work in a satisfactory way for reasonable compensation.

Therefore, it is claimed that to establish these printing plants in these places where they are not needed is a waste of strategic and critical materials, and against the interest of the Government and the people and taxpayers.

Would you like to make a general statement on that, Colonel?

Colonel Hoss. Yes, sir; I have in front of me a letter dated March 11, 1942, from the War Production Board to the Under Secretary of War, stating a general policy in regard to the field printing plants. I would like to read the four recommendations for the record, if that is agreeable.

The CHAIRMAN. March 11?

Colonel Hoss. March 11; yes, sir.

First. There shall be no expansion of present printing facilities, either in the way of new plants or by the enlargement of existing plants, except where absolutely necessary.

Second. That necessary replacements of obsolete printing equipment in existent plants be made only by the purchase or use of reconditioned equipment.

Third. That consideration be given to the releasing of such printing that is not of a confidential nature to commercial plants, which will not only relieve the distress in the printing industry, but will also make available additional facilities in the various field plants for the printing of such confidential material as is needed by the armed forces. This will, of course, automatically remove the demand for increasing or expansion of such plants.

Fourth. That all requisitions for the purchase of printing equipment, whether or not it is new equipment previously authorized by the joint committee, or used or reconditioned equipment which can only be purchased under the authority of the Executive order, be cleared through the War Production Board by the Division of Purchases, which will be responsible for ascertaining the location and availability of such equipment from the Industry Machinery Branch.

Mr. KELLY. May I ask a question.

The CHAIRMAN. Certainly.

Mr. KELLY. Those plants that you talk about, no equipment, Colonel, where are those plants located, in the Army cantonments?

Colonel HOSS. They are located throughout the Army. They are at the Ordnance Depots, at our depots, various posts.

Mr. KELLY. How long have they been established?

Lieutenant Colonel COUND. In checking over this morning, sir, comparing our present plants as now authorized by the Joint Committee on Printing, in its regulations effective July 1, with those of 1934, I find that our plants are not materially—have not been materially increased in number. There has been some relocation of them but as I say, no plant is authorized unless we receive the authority from the Joint Committee on Printing.

Mr. KELLY. And they have been practically in operation since 1934?

Lieutenant Colonel COUND. The location of those plants, Mr. Kelly, is in—

The CHAIRMAN. Now let us see how much of the Army you gentlemen cover. Do you cover all the Army, do you cover the training camps?

Colonel HOSS. Yes; we do.

The CHAIRMAN. And the airfields?

Colonel HOSS. That is right, sir.

The CHAIRMAN. You cover everything that is not covered by the Navy and Military.

Colonel HOSS. That is right, sir. The establishment of any printing plant clears through our office, that is, any Army printing plants.

The CHAIRMAN. That is connected with the Army?

Colonel HOSS. That is right.

The CHAIRMAN. How much printing is done in your printing plant each year, do you have that information?

Colonel HOSS. I have a statement here on operations which I would like to insert in the record.

Mr. HALLECK. I would like to see that letter. [Letter handed to Mr. Halleck.]

[Copy]

FEBRUARY 7, 1942.

Hon. P. PATTERSON,
Under Secretary of War,
Washington, D. C.

DEAR MR. PATTERSON: It has come to our attention that some of the supply arms are planning to purchase and install their own printing equipment. We believe that this is highly undesirable at this time, the two principal reasons being:

1. That such equipment would require a considerable amount of scarce materials and that the operation of such equipment would require additional amounts of scarce materials; and

2. That there is adequate capacity in the country to handle all the printing required by the services. In fact, there will be considerable surplus of capacity due to the paper shortage and the cutting down of advertising by firms not now selling to civilian trade.

We therefore request that the services be instructed not to go forward with such purchases and installation without further consultation.

Sincerely yours,

DOUGLAS C. McKEACHIE.

MEMORANDUM

FEBRUARY 7, 1942.

To: General Corbin.

From: Douglas C. McKeachie.

(Attached to letter to Patterson.)

This applies to a plant now being considered for Fort Knox and it is not our intention to grant priority assistance or allocate materials for new plants or extensions of present plants.

D. C. M.

Colonel Hoss. This policy which is recommended in this letter has been followed by our people about 2 or 3 months.

The CHAIRMAN. Is that the end of that letter?

Colonel Hoss. That is the end of the letter; yes.

The CHAIRMAN. May I ask you this question. We had a hearing February 16 on this question. Did you see that testimony?

Colonel Hoss. Yes, sir; I did.

The CHAIRMAN. You were keeping up with it, were you?

Colonel Hoss. Now, wait a minute.

Lieutenant GOYETTE. The letter Colonel Hoss has just read has been the result of a number of conferences held amongst the Navy, Army, the War Production Board, and the joint committee. This really started, this matter of control, dates back to the first of February, actually, in fact, the last week of January, and on February 7 Mr. MacKeachie addressed a letter to Under Secretary Patterson in which he states the situation in the printing industry, the proposed conversion, which actually at that time had considerably taken effect, of the printing manufacturers, and he concludes—

We therefore request that the services be instructed not to go forward with such purchases and installations without further consultation.

We went into these further consultations without making any purchases or approving any equipment in printing plants, and what the Colonel has just read—

The CHAIRMAN. Is the culmination of your many conferences?

Lieutenant GOYETTE. Yes; that is right, sir.

The CHAIRMAN. On March 11. We had a hearing, I believe in Detroit. Mr. Kelly conducted that hearing up there with some of the other members of the committee on March 4. Did you see that testimony?

Colonel Hoss. Yes, sir; I got that yesterday.

Lieutenant GOYETTE. I might say that this letter of February 7 came out of the first conference.

Lieutenant Colonel COUND. Mr. Chairman, we have seen that testimony, but not prior to yesterday. I just wanted you to know that our action was not predicated on that.—

The CHAIRMAN. I am not claiming that you were urged by anything that this committee did, or anything like that at all. I am sure that would not have had any effect on that, gentlemen, other than sympathetic consideration, but I am glad to know that something has been done in the direction. That started about sometime in the early part of February. Of course, we had started this long before Mr. Johnson testified.

Colonel Hoss. Now, Mr. Chairman, there is a case at hand which I know you gentlemen will question, and that is, one of these printing plants at Fort Knox.

The CHAIRMAN. That is right.

Colonel Hoss. Now there have been funds appropriated for that purpose. That has gotten as far as our office, and that is now being studied by two disinterested persons. If they approve it, then it will come up to the joint committee for approval, so that there will be nothing done until—there has been nothing done toward the purchase of equipment at the present moment.

The CHAIRMAN. Your policy as outlined there occurs to me to be a very very reasonable one. Could you state whether the Navy is in on this the same as the Army?

Colonel Hoss. The Navy sat in on some conferences. Whether this applies to the Navy or not, I don't know.

The CHAIRMAN. We will ask the representative of the Navy when he comes in. Suppose you give us those figures relative to the amount of business that these plants are doing.

Colonel Hoss. I have a tabulation here which can go into the record.

The CHAIRMAN. How many plants does it involve?

Colonel Hoss. In 1940 there were 29, that is the fiscal year 1941, 29, and the first quarter of '42, 29; the second quarter, 32.

The CHAIRMAN. Where were the three new ones established?

Colonel Hoss. Philadelphia.—

Lieutenant GOYETTE. That was really designation of an existing unit.

Colonel Hoss. Where did the others go in?

Lieutenant GOYETTE. We have Philadelphia, Bragg, which was more or less of a designation of a small unit, and they had a big multi-graphing machine, and they installed two hand job presses, and because it was in such an encampment as it is, we requested designation of it as an Army field plant, and the third one, I believe is—

The CHAIRMAN. Just go right ahead, Colonel. It is not important enough to delay the proceedings.

Colonel Hoss. This activity of the Army printing plant exists from the fiscal year 1940 down to and including the two quarters of the current fiscal year. It will show you the actual number of plants, the civilian employees, the enlisted men employed, the total, the jobs, the number of copies, unit cost, presses and machines, and the cost of equipment that has been purchased.

Now the first two quarters of 1942—the cost of equipment purchased was somewhat better than \$59,000 that has actually been spent. There will probably be another \$100,000 added to that.

The CHAIRMAN. That is for equipment?

Colonel HOSS. Replacement of equipment.

The CHAIRMAN. Replacements. I am interested in the amount of business that you do, to determine whether or not it is enough to amount to anything in comparison with the enormous printing business done in the country.

Colonel HOSS. Well, this report I can read it off to you, in 1940, we ran \$669,730.

The CHAIRMAN. That is the total value of the work?

Colonel HOSS. That is right; that is production.

Mr. HALLECK. How do you figure that cost?

Colonel HOSS. We get reports from the field of their operations.

Mr. HALLECK. Does that represent the paper you buy and the ink you buy, or does that represent the charge for wages, or the value of the completed work?

Lieutenant Colonel COUND. The method of computing your cost is laid down again in the Joint Committee on Printing regulations, what items of cost must be included as shown therein. A sample of all work produced in the field printing plants must be forwarded through channels to the Quartermaster General's office to the Joint Committee on Printing and on each job there is a stamp indicating the number of copies, the cost of the job, and so on. Now, those costs are very carefully checked by the Joint Committee on Printing. I know that to be true, because, in operating these plants, I know in former years we have had some question raised about the cost.

The CHAIRMAN. In view of the small amount, compared to the enormous printing, I don't think this is of sufficient importance to retain these gentlemen from their work, or the members of the committee. We have annually about two and one-half billion dollars in printing in this country, do we not?

Mr. HALL. That was the figure given yesterday.

The CHAIRMAN. Two and one-half billion dollars. The policy that is laid down there is right in accord with what we would like to see adopted, and you have adopted.

Colonel HOSS. That is right.

The CHAIRMAN. I don't see any reason why we should delay these gentlemen further.

Are there any questions?

Mr. HALL. Does that total you gave include mimeographing and multigraphing and so forth, or just printing?

Colonel HOSS. Just printing.

Lieutenant Colonel COUND. It does include mimeographing, and mimeographing is connected with the printing plant, so it is considered as printing and it is included in the reports.

Mr. HALL. In other words, your total would be less than \$600,000—what was that total?

Colonel HOSS. \$669,000.

Mr. HALL. Then it will be less than that if you deducted the mimeographing?

Recapitulation, activity of Army printing plants

Fiscal year period	Number of plants		Number of employees			Production			Productive machinery		Cost of equipment purchased
	Actual	Reporting ¹	Civilian	En-listed men	Total	Number of—		Cost	Number of presses	Number of typesetting machines	
						Jobs	Copies				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)			
1940.....	29	28	137	147	284	17,926	122,470,131	\$666,730	.....	.....	\$133,917
1941.....	29	28	328	222	550	26,583	290,131,146	1,114,941	.....	.....	194,004
1942:											
1st quarter.	29	28	425	330	655	8,113	100,366,062	\$22,933	.....	.....	11,225
3d quarter.	32	27	464	247	711	8,113	114,437,265	433,113	1221	46	43,432

¹ Mobile Engineer Printing Train does not submit reports although listed as a field plant, is engaged principally in lithographic reproduction.

² Includes 19 offset presses such as Multilith and Webendorfer; 18 multigraphs and other type duplicators.

Colonel HOSS. That is right.

Mr. PLOESER. Several of the complaints come from people in the duplicating business as well as printers, both people, specially by mail, have been complaining, as well as the printers.

Mr. HALL. Well, I can understand why the Army camps must have multigraphing and mimeographing.

The CHAIRMAN. Are there any other questions?

Mr. KELLY. I would like to ask a question, Colonel. I agree with the chairman that the amount involved here with the Army unit is so small that it is hardly worth discussing, but mostly all the Army printing that is going on under the supervision of the Army and Navy is military secrets, things which cannot be printed anywhere else.

Colonel HOSS. There is some that way, that is right, a good deal of it.

Mr. KELLY. I just want to ask one further question. The printers in Detroit raise the question of the printing of these targets, these targets used out on the ranges. They maintain that they can do it to meet the specifications of the Army requirements, and of course, there is nothing secret about printing a target. Do you know how much of that is actually done?

Colonel HOSS. Major Ehrlich of the Ordnance Department can probably answer that.

Major EHRlich. Prior to the expansion of the Army all of our target-printing material was prepared at the Rock Island Arsenal. Up until 2 years ago we received from Congress for all target material an average of about \$1 per man per year for the Army, that is about \$100,000 per year, which included many other items besides that matter. That was performed at the Rock Island Arsenal. The past 2 years we have printed no target material at Rock Island Arsenal. That has all been farmed out and printed outside, and most of it is in the Chicago area, being the largest city nearest to Rock Island. I checked up on this recently, and that was given as approximately \$1,000,000 worth of printing matter, target material, that is the fiscal year, and all of it by contract.

The CHAIRMAN. From private printers?

Major EHRlich. We have had to—2 months ago we found that there was no printer in the Chicago area that could undertake that as one

job, and it was farmed out to about 20 of them so as to get it within the time required, but prior, the target material was printed at Rock Island. Now, except very small lots that we use very few of, all of those that we are getting in quantity are being procured commercially.

Mr. PLOESER. Does the same rule apply to handbooks—

The CHAIRMAN. Do you have any other table or information that you would like to file?

Colonel Hoss. I have a table which deals with contract field printing for the fiscal year 1941. During that year the joint committee authorized to the War Department \$600,000; there was a total amount expended against that authorization of \$469,407.41.

Now for the current fiscal year the first two quarters, from such reports as we have already received, we find that we have authorization from the joint committee of over \$3,300,000 and of that we have expended for commercial contract printing—actually spent, that is—\$1,012,555, so you can see an increase in the contract field printing. That is actually being added onto it.

(The two tables are as follows:)

"General" allocations, of contract field printing, fiscal year ending June 30, 1948

	Amount authorized	Amount reported expended, first and second quarters
Adjutant General.....	\$37,835	\$12.00
Air Corps.....	1,947,856	796,768.05
Chemical Warfare.....	8,000	654.78
Engineers.....	290,000	36,053.27
Field Artillery.....	450	174.11
Ordnance.....	125,000	43,391.14
Signal Corps.....	40,150	2,695.41
Medical.....	153,000	47,081.78
West Point.....	8,800	2,332.13
National Guard.....	500	0
Armored Force.....	205,000	0
Quartermaster.....	1210,445	183,349.00
Total.....	3,388,336	1,012,555.67

1 See the following:

	Authorized	Obligated
Project 2.....	\$100,648	\$100,045.00
Project 10.....	8,600	8,300.00
Requested.....	1,506	1,506.00
	50,391	45,414.61
	50,000	

1 Project 2, \$37,762; project 10, \$25,567.

"General" allocations of contract field printing, fiscal year ended June 30, 1941

	Amount authorized	Amount expended		Amount authorized	Amount expended
Adjutant General.....	\$27,075	\$20,712.71	West Point.....	\$2,000	\$1,686.03
Air Corps.....	221,000	220,265.57	Infantry.....	110	0
Engineers.....	95,000	80,715.12	National Guard.....	500	0
Chemical Warfare.....	1,000	694.58	Subtotal.....	437,965	412,349.36
Signal Corps.....	2,200	1,987.80	Quartermaster.....	162,035	157,064.05
Field Artillery.....	450	450.00	Total.....	600,000	469,407.41
Ordnance.....	40,000	37,698.48			
Surgeon General.....	45,600	47,919.07			

1 Project 10, \$13,706.22; project 2, \$1,688.82.

Mr. HALL. Along that line, about targets, on Monday, February 16, Otis H. Johnson testified, cited this as an example, "I am informed that the Army has in its appropriation the sum of \$100,000 for a flat-printing press to print 73 by 73 targets." I am just wondering if you wish to make any comment on that. Is that a true statement?

Major EHRlich. I don't know about that appropriation. That is the first I have heard about it, to get \$100,000 appropriation for a printing press.

We have not procured that. That was out of the appropriation made available for material to be purchased. The Ordnance Department receives its funds and then supplies the equipment. We consider targets and the item of supplying targets the same as ammunition and the printing press that would be required in producing these targets would be a part of that cost, absorbed in that cost.

Mr. HALL. If you bought a new press of that type you would know about it, wouldn't you, Major?

Major EHRlich. Well, I have not—

Mr. HALL. At the present writing you don't know about it?

Major EHRlich. This is the first I have heard of it.

The CHAIRMAN. I wish you would check this testimony and write the committee a letter in reply to it.

Mr. PLOESER. Mr. Chairman, I asked the Major a question a moment ago and he was not permitted to answer it.

The CHAIRMAN. All right, go ahead.

Mr. PLOESER. A question about the manual of instructions.

Major EHRlich. The manuals and books of that type, we submit the text to the Government Printing Office and leave it up to them as to whether they print it themselves.

Mr. PLOESER. The Army does not print it?

Major EHRlich. It is out of our hands. We just turn it over to the Government Printing Office, we don't print it.

The CHAIRMAN. Any other questions, gentlemen?

Thank you very much.

Would you identify yourself for the record, Commander?

Commander SHOOK. Commander Shook, Secretary's office, Navy Department.

The CHAIRMAN. You heard the statement made by Colonel Hoss a while ago about the policy of the War Department?

Commander SHOOK. Yes.

The CHAIRMAN. In passing out these contracts.

Commander SHOOK. Yes.

The CHAIRMAN. Do you have a similar policy?

Commander SHOOK. Congressman, wasn't that in relation to the establishment or the purchase of additional equipment?

The CHAIRMAN. Yes; and also about allocating contracts to private printers, as it could be done.

Commander SHOOK. There is no formal order to that effect directly in the Navy Department.

The CHAIRMAN. How much business do you do in the way of printing each year?

Commander SHOOK. There is about \$730,000 that has been approved by the Joint Committee on Printing for this year.

The CHAIRMAN. Yes—

Commander SHOOK. Well, \$750,000.

The CHAIRMAN. Yes; and most of that on ships and at naval stations where it is necessary to have it?

Commander SHOOK. No, sir; that is contract field printing.

The CHAIRMAN. That is a private printer?

Commander SHOOK. That is right, sir.

The CHAIRMAN. How much do you do of that, that is, in your own printing shops?

Commander SHOOK. I don't have those figures.

The CHAIRMAN. Would it run to half that much?

Commander SHOOK. I would say it would run less than \$500,000.

The CHAIRMAN. Less than \$500,000. Well, listen, gentlemen, without objection the business that the Navy is doing in printing is so insignificant compared to the total amount of printing done in the country, that I don't think it is of sufficient importance—

Mr. KELLY. Mr. Chairman, I agree with you on that. I think that the amount involved would also include the printing that is done on some of these battleships too?

Commander SHOOK. Yes, sir.

Mr. KELLY. Thank you.

The CHAIRMAN. Thank you very kindly, Commander. I hope you consider the order that was gotten out by the War Department. I think it is an excellent order.

Commander SHOOK. Well, we did consider that, sir.

The CHAIRMAN. Is Colonel Lowe here?

Colonel LOWE. Yes, sir.

The CHAIRMAN. Colonel, will you identify yourself for the record, please.

Colonel LOWE. Col. Thomas H. Lowe, Adjutant General's Department, Washington, D. C.

The CHAIRMAN. You are connected with the Army, aren't you?

Colonel LOWE. Yes, sir.

The CHAIRMAN. These gentlemen who have just testified, did their figures include the type of printing that you deal with, too?

Colonel LOWE. In part.

The CHAIRMAN. What part is it that you cover that they did not cover?

Colonel LOWE. The part that we have done through the G. P. O., Government Printing Office.

The CHAIRMAN. The Government Printing Office. Do you do any with private printers?

Colonel LOWE. None.

The CHAIRMAN. None. How large is your printing business a year, approximately?

Colonel LOWE. In round figures about \$3,900,000.

The CHAIRMAN. \$3,900,000. That seems to be more than the War Department generally.

Colonel LOWE. Well, they identified their field printing—

The CHAIRMAN. Yes.

Colonel LOWE. And some of the stuff that the Adjutant General's Office, which I represent, have been both Government Printing Office and with the field printing.

The CHAIRMAN. You mean with the field printing shops owned by the War Department?

Colonel LOWE. That is right.

The CHAIRMAN. Do you do any with private industry?

Colonel LOWE. None whatever.

The CHAIRMAN. None at all?

Colonel LOWE. See, under the law the funds allotted to The Adjutant General come under the general supervision. That has to be printed by the Public Printer.

▶ The CHAIRMAN. Yes; do you have a statement there of the amount of printing each year in any period of time?

Colonel LOWE. No; I have not.

The CHAIRMAN. You know that charges were made that the printing done by your Department and also the War Department and Navy was quite enormous and unfair to the private business.

Colonel LOWE. I think Mr. Lehman can probably give you those figures so far as the War Department is concerned better than I can—

The CHAIRMAN. But you state it is under \$4,000,000, about \$3,900,000?

Colonel LOWE. It is under \$4,000,000.

The CHAIRMAN. Any other questions, gentlemen?

Mr. KELLY. Colonel, that is printing you could not get done on the outside?

Colonel LOWE. That is printing that is restricted by law, it has to be done by the Government Printer, and the Government printing that we do print in the field plant is sublet by the Government Printing Office to the field plant.

The CHAIRMAN. Thank you very kindly, Colonel, I am sorry to have delayed you.

Now we have Mr. Arnold here.

Mr. Arnold, would you identify yourself for the record?

Mr. ARNOLD. Leon W. Arnold; I am principal assistant officer Air Service Command, Wright Field, Dayton, Ohio, and also with the Defense Aid Air Corps.

The CHAIRMAN. Where is Wright Field located?

Mr. ARNOLD. Dayton, Ohio.

The CHAIRMAN. What is the size of the printing plant there?

Mr. ARNOLD. It occupies a space about 160 by 200 feet.

The CHAIRMAN. How much printing do you do annually?

Mr. ARNOLD. Well, we print all technical orders, which are technical instructions how to administer and use air equipment.

The CHAIRMAN. It is necessary to print that in your own plant?

Mr. ARNOLD. No, sir; we only do about one-tenth of that total printing.

The CHAIRMAN. You do about one-tenth of that in your own plant?

Mr. ARNOLD. That is right.

The CHAIRMAN. And the rest of it is done where?

Mr. ARNOLD. The rest of it is done—we have contracts out to a large printer in Dayton, Reynolds & Reynolds Co.

The CHAIRMAN. In other words, a private printer?

Mr. ARNOLD. A private printer.

The CHAIRMAN. Do you, where possible, give contracts to private printers?

Mr. ARNOLD. We do. There are certain things which are confidential, secret, that must be done in our own plant.

That you cannot put out to private printers.

The CHAIRMAN. That is the only part?

Mr. ARNOLD. That is the only part and then, of course, we issue corrections to existing technical instructions. They are very complicated and must be matched in with existing texts, and you must have close supervision over that.

The CHAIRMAN. Naturally. What is the amount of printing done in your plant each year, approximately?

Mr. ARNOLD. Well, I would say possibly around \$200,000 would cover what we do in the plant and it will run very close to four and a half or five million dollars outside.

The CHAIRMAN. Any questions.

Mr. KELLY. Those are for negotiated contracts?

Mr. ARNOLD. That is right.

The CHAIRMAN. Thank you very much. The information that you gentlemen have given us has been of help to the committee in getting the true facts on the record.

Without objection we will stand at recess subject to call.

(Whereupon at 11 a. m., the hearings adjourned subject to call.)

WAR DEPARTMENT,
OFFICE OF THE CHIEF OF ORDNANCE,
Washington, March 22, 1942.

Hon. WRIGHT PATMAN,

Chairman of Select Committee Conducting Study Authorized Under H. Res. 294,
United States House of Representatives,
Washington, D. C.

DEAR CONGRESSMAN PATMAN: On Friday, March 20, 1942, Maj. A. M. Ehrlich, of this office, appeared before your committee with reference to printed material being procured by this office. In connection therewith, you requested information pertaining to a statement made by Mr. Johnson which appears on page 447 of your hearings.

A careful check has been made of the records of this office and no information is available as to any appropriations being requested by the Ordnance Department for the building of a special printing press for 73- by 73-inch targets. In fact, no funds have been requested for printing presses of any size and it is not planned at the present time to submit any such request.

Where the facilities of existing installations are not adequate for supplying the printed material required, this Department is taking steps to procure the printed material either through the Government Printing Office or commercially, and is adhering to the policy set forth by the War Production Board on February 7, 1942, to the effect that no printing equipment will be purchased.

Sincerely yours,

C. M. WESSON,
Major General, Chief of Ordnance.

[Copy]

MEMORANDUM

FEBRUARY 26, 1942.

To: Mr. Donald M. Nelson, Chairman, War Production Board.

Through: Channels.

From: Robert Porter, Chief, in charge of paper products, Division of Purchases.

Subject: Conference on Government printing and printing equipment.

At a meeting called for 10 this morning by Robert Porter, and attended by George A. Renard, Chief, Printing and Publishing Branch, Division of Industry Operations, War Production Board; Ansel Wold, Chief Clerk, Joint Committee on Printing and Publishing; Lt. Col. August E. Schanze, General Staff, War Department; Lt. Col. Francis J. Gillespie, Fort Knox, Ky.; Lt. Comdr. T. M. Dewey, Division of Supply and Accounts, Navy Department; Lt. J. F. Goyette, Quartermaster General's Office, War Department; Francis J. McCarthy, Budget Examiner, Bureau of the Budget; William James, Assistant Director of Purchases, War Production Board; and N. G. Burleigh, Chief, Industrial and Office Machinery Branch, W. A. Kelly, Chief of Printing, Publishing, Pulp and Paper Machinery

Section, Industrial and Office Machinery Branch; Herbert W. Blomquist, Assistant Chief, Printing, Publishing, Pulp and Paper Machinery Section; Capt. William Trimble Biesel, priorities consultant, Printing and Publishing Branch, all of the Division of Industry Operations of the War Production Board, the following propositions were agreed to pending their confirmation by Donald M. Nelson, Chairman, War Production Board and his issuance of the necessary directive:

1. That as the Joint Committee on Printing has unanimously resolved that they would not authorize the building of any new plants or the expansion of any old plants for Government printing.

2. And in that the Government Printing Office has advised the committee that they are working at maximum capacity on a 24-hour-a-day basis.

3. And in that the Government Printing Office is authorized by the committee to place Government printing with commercial plants.

4. And in view of the fact that the printing industry of the country is in dire straits and now has available on an 8-hour a day basis 50 percent or more of its printing facilities for Government work.

5. And in that commercial printing facilities can only be converted to direct war contracts to a very limited degree.

6. And in that 95 percent of the printing equipment machinery manufacturers are 100 percent converted to munitions production, and the purchase of any new equipment would dislocate their present production schedule and would involve the use of scarce and critical materials needed for direct war products.

It is recommended that—

(a) No new printing plants be built.

(b) That there to no expansion of present Government printing facilities.

(c) That necessary replacements of obsolete printing equipment in existing Government plants be made by the purchase of used or reconditioned machinery.

(d) That all items not of a secret or confidential nature be printed in commercial plants thereby immediately releasing the available facilities in the various Government field printing plants for the printing and publishing of such confidential material as is needed by the armed forces.

(e) That all requests for the purchase of printing equipment—whether or not it is new equipment previously authorized by the Joint Committee, or used or reconditioned equipment which can only be purchased under the authority of the Executive order—be cleared through the War Production Board by the Printing and Publishing Branch, which will be responsible for ascertaining the location and availability of such equipment from the Industrial Machinery Branch and making the joint recommendations to the Director of Purchases.

(f) That the extension of the printing facilities at Fort Knox by the purchase of such used or reconditioned or new equipment if the latter is available, as may be recommended to the Joint Committee as necessary for printing the material used in training the Armed Force, be approved.

R. A. P.

MEMORANDUM

FEBRUARY 26, 1942.

To: Robert Porter, Chief, in charge of paper products, Division of Purchases.
From: George A. Renard, Chief, Printing and Publishing Branch, Division of Industry Operations.

Subject: Conferences on Government printing and printing equipment.

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(f) That the extension of the printing facilities at Fort Knox by the purchase of such used or reconditioned or new equipment if the latter is available, as may be recommended to the joint committee as necessary for printing the material used in training the Armored Force, be approved.

E. W. PALMER, *Assistant Chief.*

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON PRINTING,
February 27, 1942.

HON. DONALD M. NELSON,
Chairman, War Production Board,
Washington, D. C.

SIR: The Joint Committee on Printing has recently given careful consideration to the serious situation confronting the commercial printing industry throughout the United States, having learned that unemployment is at its peak. As a result attention is invited to the statement of the Public Printer printed on page 291 in the House hearings of the legislative appropriation bill for 1942 as follows:

"Reason for letting contracts for printing.

"Mr. LEAVY. If the Government Printing Office were sufficiently large and sufficiently staffed, there would be no necessity for calling for bids from the outside at all? Am I correct in that conclusion?

"Mr. GIEGENACK. Yes; but I say this: It is sufficiently large and sufficiently staffed for normal conditions. It would not pay the Government to enlarge the building, to buy additional equipment, or to employ more help to handle present peak conditions, because when this whole thing is done, we would have that much surplus on our hands. We are running 24 hours a day, 6 days a week, and we feel that is tops and that anything that can't be handled now should go outside."

Any printed matter required of a particular field plant which cannot be produced with its present equipment may, with the collaboration of the Government

Printing Office, be procured promptly, efficiently, and economically through contracts awarded to commercial printers in the immediate vicinity of such plant. Any field agency which needs printed matter which cannot be produced in its plant as presently equipped should request from the Public Printer advice as to the preparation of specifications and the names and addresses of commercial concerns in the immediate vicinity equipped to handle the particular jobs which it needs.

This committee has now under consideration a recommendation that the work of the Government Printing Office be drastically curtailed in order that additional work may be diverted to commercial printing concerns throughout the United States which, due to the drastic cut in private printing, are facing bankruptcy. The recommendation under consideration states: "It is not claimed that the above-suggested plan will prevent bankruptcy and failure among the thousands of private printing concerns, but it inevitably will be of far-reaching assistance to these organizations in keeping their economic body and soul together."

Many requests for authority to purchase equipment to enlarge the various field printing plants or for the establishment of new offices have been received. In order that a uniform policy may be followed in handling these requests, it is suggested that the War Production Board recommend to all of the various Government activities that requests to the Joint Committee on Printing for authority to purchase printing equipment should only be made when needed to replace obsolete machinery and that such worn-out equipment be traded in and allowances procured therefor. This committee very strongly feels that no Government printing plant should be enlarged or expanded under the conditions now existing in the printing industry.

Trusting that the suggestions contained herein will receive the concurrence of the War Production Board, I remain,

Very truly yours,

CARL HAYDEN, *Chairman.*

(Copy)

MARCH 11, 1942.

HON. ROBERT P. PATTERSON,
Under Secretary of War, Washington, D. C.

DEAR MR. PATTERSON: In view of the fact that the printing industry of the country is in dire straits and now has available on an 8-hour day basis 50 percent, or more, of its printing facilities for Government work, and having in mind that approximately 95 percent of the printing equipment machinery manufacturers are 100 percent converted to munitions production, which automatically eliminates the manufacture of new printing equipment, we would appreciate your arranging to have a directive issued to the effect that—

(a) There shall be no expansion of present printing facilities, either in the way of new plants or by the enlargement of existing plants, except where absolutely necessary.

(b) That necessary replacements of obsolete printing equipment in existing plants be made only by the purchase of used or reconditioned machinery.

(c) That consideration be given to the releasing of such printing that is not of a confidential nature to commercial plants, which will not only relieve the distress in the printing industry, but will also make available additional facilities in the various field plants for the printing of such confidential material as is needed by the armed forces. This will, of course, automatically remove the demand for increasing or expanding such plants.

(d) That all requests for the purchase of printing equipment, whether or not it is new equipment previously authorized by the Joint Committee, or used or reconditioned equipment which can only be purchased under the authority of the Executive order, be cleared through the War Production Board by the Division of Purchases, which will be responsible for ascertaining the location and availability of such equipment from the Industrial Machinery Branch.

Very truly yours,

HOULDER HUDGINS,
Director of Purchases.

CC: D. M. Nelson.
F. M. Folsom.
A. J. Browning.
Same letter to Under Secretary of the Navy.

SMALL BUSINESS IN THE UNITED STATES

MONDAY, MARCH 23, 1942

SELECT COMMITTEE TO CONDUCT A STUDY AND INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM IN ITS RELATION TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.

The select committee met, pursuant to adjournment, at 10:30 a. m., in the caucus room, Old House of Representatives Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman (chairman); Halleck and Bulwinkle.

The CHAIRMAN. Senator Murray, would you like to be heard now? Senator MURRAY. Yes.

The CHAIRMAN. You gentlemen may come around the table, and we will get going.

We will now hear the Honorable James E. Murray, United States Senator from the State of Montana, and Chairman of the Senate Committee on Small Business.

Senator Murray, you are familiar with our hearings?

Senator MURRAY. Yes.

The CHAIRMAN. If you would like to make a statement, we will be very glad to hear you.

STATEMENT OF THE HONORABLE JAMES E. MURRAY

Senator MURRAY. Mr. Chairman, I think it is very important that these hearings should be held to bring out the situation that confronts the country.

There is no doubt but what this shortage of sugar is going to have a disastrous effect on small business in various parts of the country, and a desperate effort must be made to bring about an expansion of the production of sugar in this country, or, if that does not take place, we are going to witness some very serious repercussions.

In the West we are prepared to bring about such expansion if we can get any encouragement, or assistance from the Government to bring it about. I think in the Western States where sugar beets are being produced we can bring about an expansion of at least 300,000 acres. That would roughly mean 600,000 tons of sugar, estimating on the basis of about 2 tons to the acre. This can be accomplished within a period of 2½ years.

The whole problem is a problem of processing. Already the farmers in our section of the West are consulting with the railroads to bring about a further carriage of the beets to processing plants in order to immediately expand, and representatives from our State have been

to Denver to see the processors and to see how far they may be able to expand their processing and facilities in order to bring about an immediate expansion, but the important thing is to have the W. P. B. and the other governmental authorities give preference ratings to sugar in order to permit them to expand their processing facilities.

The CHAIRMAN. You mean on the equipment and machinery necessary to process the sugar beets?

Senator MURRAY. Yes.

Besides that, the processors, in order to induce the processors to bring about that expansion, of course, they must have some assurance that they are not going to be terminated as soon as the crisis is over. If they have a reasonable assurance that they will be able to continue their operations for a short time, they are willing to take the chance, but without that, of course, they cannot be expected—it cannot be expected that they would go into the enormous investment to bring about this expansion, which would only permit them to operate for a short time.

As I say, we can get a tremendous increase—not a tremendous increase, but we can get some increase immediately by having the railroads carry the beets a longer distance, and we have in Montana a very extensive area there in the Buffalo Rapids section and over around Great Falls, where they are prepared immediately to begin planting and right in the Great Falls area the farmers have already signed up or pledged themselves to expand 11,000 acres, without any assurance whatever, showing how anxious they are to proceed with this program to meet the conditions. That, of course, could be greatly increased with any assurance from the Government.

Down in the Buffalo Rapids area, just around Miles City, Mont., they have a tremendous area there of newly irrigated lands, and they are frantic about it, because they will not be able to pay the amounts that are required to be paid on their acreage that has been irrigated there unless they have some cash crops such as sugar to base their payments on.

We are engaged in negotiations right at the present among the War Production Board Sugar Section and with the Sugar Section of the Department of Agriculture in an effort to get this preference rating, and if we get it, they will be able to go to work immediately.

We have Mr. Rising here, who represents the Western Beet Growers' Association, and he is prepared to go into this subject in great detail, and I therefore will not attempt to touch on the figures to any degree at this time, because I came here without any preparation, and therefore I will ask that Mr. Rising make the principal statement on behalf of these Western States. He is very familiar with our Section and has been giving study to it for a long while.

I think that it is very important, for the sake of the small businessman of the country; as well as to take care of these farmers, who have the facilities to bring about this expansion, that something should be done to bring about the recommendation on the part of the Government that this expansion should take place without delay.

The CHAIRMAN. Thank you very much, Senator Murray. We appreciate the contribution you have made to the hearing, and we will be very glad to hear from Mr. Rising. First we are to hear from Mr. Ernest Moore, and after we hear from Mr. Moore, we will call Mr. Rising. Thank you very kindly, Sir.

Mr. Moore, suppose you give your name, your position, and your address.

Mr. ERNEST MOORE. My name is Ernest H. Moore, I am vice president of Lewis & Co., Inc., of Louisville, Ky., operating as general sugar brokers, handling cane, beets, and other types of sugars.

The CHAIRMAN. Now your statement will be placed in the record at this point, and suppose you just comment on this statement, if you will, please.

Mr. MOORE. I don't quite understand you, sir.

The CHAIRMAN. Well, you have some statistical information here in your statement, and I thought maybe you would just comment on the statement, instead of reading your statement. It will be published and printed.

Mr. MOORE. Yes.

STATEMENT OF ERNEST H. MOORE

Mr. MOORE. My name is Ernest H. Moore. I am vice president of Lewis & Co., Inc., of Louisville, Ky., general sugar brokers, handling cane and beet sugars on a commission basis in every section of the United States.

I was asked to appear as a witness before this committee by the Small Business Association of New England, because it was their belief that we had a general knowledge of the sugar business, which would be helpful to this committee in solving the problem of maldistribution which now exists.

In considering the problem may I present the following figures:

Stocks of sugar in United States

Jan. 1, 1942:		
On hand:		Tons
Beet sugar.....		1,400,000
Cane sugar.....		860,000
Frozen stocks.....		400,000
Total.....		2,660,000
Received at all ports January to Mar. 14.....		338,000
Total.....		2,998,000
Estimated use (rate, 7,000,000 tons yearly) at 134,615 tons weekly—		
10 weeks to Mar. 14, 1942.....		1,346,150
Balance on hand.....		1,651,850

From this table it can be seen that we have in this country ample stocks of sugar for current needs, but the problem is one of equitable distribution.

Because of shipping difficulties, the industrial eastern seaboard is now in a distressed condition. From January through March 14 receipts of raw sugar, at Boston, New York, Philadelphia, and Baltimore ports totaled only 250,000 tons as compared with 550,000 tons a year ago, or less than 50 percent. Stocks on hand in refiners plants at these four ports were only 25,000 tons of raw sugars.

Both refining plants in Boston, serving the New England area have been forced to close due to lack of raw sugar, and there have been no recent arrivals of "offshore" refined sugar.

It can be stated that the larger industrial users of sugar in this area are adequately stocked to carry on during a scarce period of a month

or two, but the small plants are now suffering and many will have to close unless relief comes—and the relief must be immediate.

It is our suggestion that section A-6 of amendment No. 1 of order No. 60, dated January 9, 1942, be amended. We believe that this section has prevented the flow of sugar into the eastern seaboard, because it makes it more profitable for sugar to be sold in other areas. This freezing order has set the price of sugar at several different levels in the principal cities of the country and has restrained competition which would have contributed toward a more equitable distribution of the available stocks in the country.

The CHAIRMAN. Thank you, Mr. Moore. Now do you care to comment??

Mr. MOORE. Well, I want to make a recommendation that to make sugars available to the parties that they are not available to today, due to section A-6, of order 60, amendment No. 1, that it could be possible by certain amendments to this section to make these sugars available to practically all parts of the country. As our present set-up is, the basis of our operations with the cane refiners, f. o. b. seaboard, the points wherever a refinery is located on the Atlantic, Gulf, or the Pacific points, that is, we will say, the basis for origin of the price structure, that is, the ceiling of the price.

The CHAIRMAN. Let me ask you some questions, Mr. Moore. You state here in your statement that the price of sugar varies in different cities of the country. Can you give any concrete illustrations?

Mr. MOORE. Yes, sir; the price of sugar at Norwich, Conn., would be \$5.60 per 100 pounds.

The CHAIRMAN. You are talking about retail prices?

Mr. MOORE. No; this is wholesale price, we will deal with wholesale prices altogether throughout our talk. At New York City, the f. o. b. refinery basis, the price is \$5.45; St. Louis, Mo., the price is \$5.84 per hundred.

The CHAIRMAN. What is this difference based upon?

Mr. MOORE. The difference is based upon the arbitrary prepaid freight basis that this order requires the sellers and the buyers to pay, based on the f. o. b. seaboard refinery base, which is \$5.45, the ceiling price for domestic refined cane sugar.

The CHAIRMAN. Well, if this order were amended, this order No. 60, just how would that bring sugar into distressed areas?

Mr. MOORE. Well, under the present status of the order, the advantage to an owner of sugar in any of the western areas, or any point where a seller or the owner of sugar could pick up over the ceiling price, by picking up this prepaid freight, if these points were made f. o. b. points and the necessary amendment made to section 6-A of order 60—

The CHAIRMAN. Yes.

Mr. MOORE. A customer, we will use for example Boston, where one of the most distressed points is at present, could buy that sugar from any point that these sugars may be stored, as an example, we will say, Norfolk, Va.—there is quite a block of sugar there, and it is 11 cents per hundred pounds over the ceiling price, that the owners of those sugars can pick up under the present status of this order. Now if a Boston customer was permitted to buy f. o. b. Norfolk, Va., and pay that 11 cents over; which this order permits, and just absorb the freight himself into Boston, that would make those sugars avail-

able for him and relieve the sugar situation in the Boston area, and then the local refiners at Boston could receive the necessary raw sugars to supply their trade.

The CHAIRMAN. Is there any bootlegging of sugar going on in New England?

Mr. MOORE. Well, I cannot put my hand on any particular thing, but I would say that under the present regulations that it could easily force bootlegging, because the people that own sugar and are not entirely willing to follow this ruling to the letter, would certainly find plenty of buyers that would be willing to pay considerable above the ceiling.

The CHAIRMAN. Well, what about the retail price of sugar, should it be set the same as the wholesale?

Mr. MOORE. Well, I don't know that I am qualified to answer that question, because we deal only in wholesale prices of sugar. I don't think that the setting of a retail price would remedy the evil, unless the necessary quantities—

The CHAIRMAN. I am not talking about this particular evil that you speak of. In the public interest, should the retail price of sugar be fixed?

Mr. MOORE. I don't see how that can be fixed, because you have got a different price in practically every market throughout the United States.

The CHAIRMAN. On account of the difference in freight rates?

Mr. MOORE. On account of the difference in freight rates, because the Atlantic seaboard, the Pacific and the Gulf seaboard, are forced to use those points as origin points.

The CHAIRMAN. Well, the price-fixing bill gives Mr. Henderson the power to fix margins, he could fix the profit margin, could he not?

Mr. MOORE. He could fix a percentage of profit over the delivered price at the final destination.

The CHAIRMAN. Which would have the same effect?

Mr. MOORE. Which would have the same effect, but it certainly will not give the consumers generally over the country the same price on sugar.

The CHAIRMAN. No, on account of the difference in cost.

Mr. MOORE. On account of the difference in freight from the seaboard points.

The CHAIRMAN. Do you have any other suggestions to make, Mr. Moore, about what should be done?

Mr. MOORE. I think that if relief that I have suggested here was given to those areas, that there are ample sugars available in the country, that the necessary sugars could be obtained and gotten to people that are in distress at the moment, and then we could, when the refineries were in a position to supply them, this ruling would not be necessary, because it is natural that a buyer in Boston or in New York, if he could not buy sugars from the local distributors there, he certainly would not want to pay the higher prices from another territory, if they could supply him. I don't see any relief in sight until these sugars are made available from whatever points that they can be obtained.

The CHAIRMAN. That is your major objective, to get these sugars made available to other sections?

Mr. MOORE. That is correct.

The CHAIRMAN. That is the principal thing you want to recommend?

Mr. MOORE. That is correct.

The CHAIRMAN. Well, of course, you want the production of sugar increased in the continental United States too, I presume?

Mr. MOORE. I think it should be, because we are in a war. No one can possibly tell how long it is going to last and we cannot tell how many bottoms are going to be required or how many are going to be made available to bring in sugars from offshore areas for the refineries, and unless we can get it from those areas by boat, we have to produce them domestically.

The CHAIRMAN. That is right. Thank you very kindly, Mr. Moore.

We have Mr. Rising here, from whom we want to hear this morning. You will be furnished a copy of your testimony tomorrow morning. If you want to supplement anything that is material, you will be allowed to do so.

Mr. MOORE. Thank you very much.

(Witness excused.)

The CHAIRMAN. Mr. Rising, will you give your name, position, and address to the reporter, please?

STATEMENT OF E. W. RISING

Mr. RISING. My name is E. W. Rising. I am executive vice president of the Western Beet Growers Association. The Western Beet Growers Association has a membership in 14 States—Montana, North Dakota, Minnesota, Washington, Oregon, California, Nevada, Idaho, Utah, Nebraska, Colorado, Iowa, South Dakota, and Illinois.

The Western Beet Growers Association is actively engaged and has been so engaged for some time in an effort to secure a larger share of the continental sugar market for the continental beet and cane growers.

I think, as you know, Mr. Chairman, that under the provisions of the Sugar Act that is now in effect, 44.41 percent of our consumptive requirements is allocated to foreign countries, and the remaining 55.59 percent is divided between domestic areas.

The CHAIRMAN. You mean, when you say foreign countries, you mean sections of the United States?

Mr. RISING. No, I mean foreign countries.

The CHAIRMAN. Foreign countries?

Mr. RISING. Right, foreign countries get 44.41 percent, the domestic areas, which include Hawaii, Puerto Rico, and the Virgin Islands, receive the remainder, or 55.59 percent.

Specifically, our domestic allotment is divided as follows: 41.72 percent to domestic beet—that is 41.72 percent of the 55.59, mainland cane receives 11.31 percent, Hawaii receives 25.25 percent, Puerto Rico 21.48 percent, and Virgin Islands 0.24 of 1 percent.

Under the provisions of the Sugar Act the domestic quota cannot be less than 3,715,000 tons, and the minimum quotas then are as follows:

	Short tons
Domestic beet sugar.....	1,549,898
Mainland cane.....	420,167
Hawaii.....	938,037
Puerto Rico.....	797,952
Virgin Islands.....	8,916

Now these allotments, of course, are increased on a percentage basis if the Secretary of Agriculture determines that our consumptive requirements are larger than the basic quota of 6,682,670 tons.

This year we have been told that there would be no restrictions on sugar produced in the United States. However, officially, the Department of Agriculture, under date of December 31, under the provisions of the Sugar Act, issued quota regulations which limit domestic beet sugar production to 1,862,811 tons. Of course, we assume that if we produce more beet sugar than the allotment, that the allotment will be raised. However, the figures that are now issued and are in effect are really all we have to depend upon.

Mr. Chairman, I state that the American farmers desire the privilege of supplying a larger percentage of the sugar required to meet our consumption requirements. We have been asking for this increase for a number of years. We are led to make this request because of the increase, or improvement, rather, in the farmers' methods, and that a given number of acres will produce more beets than were raised on the same number of acres a few years ago.

We are also bringing under cultivation new lands and we feel that these new lands should be permitted to share in any quotas that may be established, and at the present time that cannot be accomplished without cutting down upon the allotment to other areas.

For the record I have a short memorandum in regard to the principles and objectives of our association that I would like to have inserted into the record at this point [reading]:

(a) We hold that the American sugar market belongs first to the American farmer, and American laborer, and the American businessman. At present there are thousands of farmers in the United States desiring to grow sugar beets with no possibility of being permitted to do so now or in the future; likewise there are many areas where processing plants are wanted and needed.

(b) The purpose of this association is to encourage and aid in the full development of the sugar-beet industry in the United States. We recognize a mutuality of interest with cane and beet growers in all sections of this country and propose to work in harmony with other organizations representing growers in continental areas.

(c) The association favors a program of regulation and protection which will assure profitable returns to beet and cane growers, fair wages to labor employed by growers and engaged in the refining and processing industry, and reasonable earnings on investment in refineries and processing plants in continental United States.

I am assuming that the committee does not desire to go into a full discussion of a number of complicated questions that usually arise whenever we have a hearing on sugar legislation, and that you are particularly interested in whether we can increase the domestic production.

The CHAIRMAN. That is the main point I would like to hear you speak on, personally.

Mr. RISING. Well, speaking for the western farmers and beet growers represented by my association, I want to confirm the statements of Senator Murray a few moments ago to the effect that we will be very glad to increase our production of beet sugar by 600,000 tons over the 1940 record if we are permitted to do so.

The limiting features will not be the failure of the farmers to respond to the invitation to produce more sugar, but will be—the bottleneck will be the capacity of the existing plants and our ability to obtain preference ratings under which plants may be kept in repair and material secured for the relocation of two or three plants that are now

being moved to better areas, and to permit the construction of new plants.

Of course, we know that materials cannot be secured at this time for the construction of 15 or 20 new plants which would be required to produce this 600,000 tons of sugar—at least, we don't expect that we can secure that amount of material in any one year.

A few days ago we prepared and presented to the Sugar Section, Food Supply Branch, W. P. B., a program for the years 1942 and 1943. We think that is a minimum program, and it calls for, first, the furnishing of sufficient operating supplies for the existing processing plants so that they may operate to capacity for the year 1942.

The CHAIRMAN. I think we have your point there, Mr. Rising, that you think, in order to relieve this situation which, of course, would be harmful to small business if it continues, you want to increase the production of sugar beets and sugar made from sugar beets. In order to do that you will have to have processing plants; in order to have processing plants you will have to have priorities and allocations of strategic materials that will be needed for the machinery to be used in operating the processing plants. That is your point, isn't it?

Mr. RISING. You have expressed my idea correctly, Mr. Chairman.

The CHAIRMAN. Now, suppose we go on to something else. What else do you recommend be considered?

Mr. RISING. Well, those are the principal points to be stressed, Mr. Chairman. In addition to the operating materials that we need for 1942, and also the small amount of repair material, we do need, of course, right away the preference rating that you have mentioned, which will permit us to start the construction of a few plants and have them ready for the processing period of 1943, and if you will permit, I would like to submit for the record a memorandum.

The CHAIRMAN. Without objection, it will be inserted.

(The memorandum reads as follows:)

SUGGESTIONS FOR INCREASING BEET SUGAR SUPPLY

Presented to Mr. A. E. Bowman, Chief, Sugar Section, Food Supply Branch, Industrial Operations Division, War Production Board, by the Western Beet Growers Association, Washington, D. C.

On January 18, 1942, Secretary Wickard announced that the Nation was facing a serious sugar shortage. The Western Beet Growers Association promptly issued a bulletin advising its members to grow every acre of beets during 1942 that could be contracted to a processor.

Increasing the production of sugar beets will not only reduce the shortage of a food needed to sustain the energy of our armed forces, and men employed in our war industries, but beet sugar byproducts will provide large quantities of feed for livestock, thus increasing our supply of meats and dairy products.

Our growers are more than anxious to materially increase acreage planted to sugar beets. A survey made by the Western Beet Growers Association indicates that thousands of farmers not now beet growers, will begin the cultivation of sugar beets as soon as processing facilities are assured.

Having found that the quantity of beet sugar produced in 1942 and following years will be determined by the total capacity of the beet sugar processing plants, we are submitting for your consideration a program, which if approved, will assure owners of existing plants the replacements and repairs needed for 1942, and the construction of additional processing facilities for 1943, thereby securing materially increased production with use of a limited amount of critical materials.

GENERAL SUGAR QUOTA REGULATIONS FOR 1943

The Secretary of Agriculture under date of December 31, 1941, issued general sugar quota regulations for the calendar year 1942, and determined the amount

of sugar needed to meet the requirements of consumers in the continental United States is 6,666,890 short tons of sugar, raw value, and that in order to make available that amount of sugar, a quantity of 8,032,074 short tons of sugar, raw value, is required as a consumptive determination.

QUOTAS FOR DOMESTIC AREAS

Original quotas for domestic sugar-producing areas, for the calendar year 1942, were established as follows:

	Short tons, raw value
Domestic beet sugar.....	1,862,811
Mainland cane sugar.....	504,995
Hawaii.....	1,127,420
Puerto Rico.....	959,088
Virgin Islands.....	10,716

QUOTAS FOR OTHER AREAS

Original quotas for foreign countries and Philippine Islands for calendar year 1942, the following:

	Short tons, raw value
Commonwealth of the Philippine Islands.....	1,237,764
Cuba.....	2,297,533
Foreign countries other than Cuba.....	31,747

PRICE ADMINISTRATION ESTIMATE SUGAR WE CAN OBTAIN IN 1942

A conservative estimate of the amounts of sugar which we can obtain in 1942 is listed as follows:

	Short tons
Domestic beet sugar.....	1,750,000
Domestic cane sugar.....	450,000
Philippines.....	None
Hawaii.....	500,000
Puerto Rico.....	1,100,000
Virgin Islands.....	5,000
Cuba.....	1,070,000
Other foreign countries.....	35,000
Miscellaneous (frozen stocks, etc.).....	390,000
Total.....	5,300,000

¹ This estimate reflects the production on reduced acreage during 1941 together with withdrawals from stock carried over from prior year.

It should be noted that the beet sugar industry will, for the first time, become the most important single source of supply for American consumers.

PROGRAM FOR 1942—2,000,000 TONS OF BEET SUGAR

Two million tons of beet sugar will be produced in 1942, if preference ratings are provided for plant repairs and replacements needed for 1942 operations, and,

Preference ratings given for completing the relocation of two processing plants, now being moved to new areas. (The Amalgamated Sugar Co. are moving a plant from Utah to Idaho and the Holly Sugar Co. relocating a plant in California).

PROGRAM FOR 1943—10 PERCENT INCREASE OVER 1942 PRODUCTION

Granting of preference ratings for the construction of five new processing plants. Exact locations to be determined by processors, with following areas suggested.

Montana.—One plant near Great Falls, one plant in the Miles City area, and one plant in northeastern Montana.

North Dakota-Minnesota.—Two plants in Red River Valley.

Other Locations.—Growers in the locations above-mentioned are at the present time active in urging that they be permitted to grow sugar beets, thereby assisting in relieving the sugar shortage.

Other areas in States of Nebraska, Oregon, Washington, Iowa, Idaho, California, Montana, and Nevada have also advised us that they are anxious to participate in a program for increasing production of beet sugar. Over a period

of 3 or 4 years, no less than 300,000 additional acres of land will be producing sugar beets if processing plants are provided and marketing program adopted.

The CHAIRMAN. Do you have any questions, Mr. Halleck?

Mr. HALLECK. Yes.

Mr. RISING. I have a few more remarks, Mr. Chairman, if I may?

The CHAIRMAN. All right.

Mr. RISING. Since your committee has assumed the study of how production may be increased, I have made a trip to some areas in North Dakota, Minnesota, and Montana and I have come here with a memorandum brief that has just been made up, showing the conditions in the Red River Valley, particularly, where at present there are some 27,075 acres of beets, and they are asking for an increase of 73,000 acres in that particular area. I would like to submit that brief also for the record.

The CHAIRMAN. All right, without objection, it will be submitted. (The brief referred to reads as follows:)

MINNESOTA-DAKOTA SUGAR BEET DEVELOPMENT ASSOCIATION,
March 31, 1948.

BEEF SUGAR PRODUCTION IN THE RED RIVER VALLEY OF MINNESOTA AND NORTH DAKOTA

Area characteristics.—Unlimited acreage of alluvial Barnes, Bearden, and Fargo silt loams in the bed of prehistoric Lake Agassiz.

Climate and rainfall.—Long hours of cloud-free sunshine during growing season. Cool fall weather tends to produce high sucrose content in beets.

Production, present and potential.—1942 sugar production estimated to exceed 800,000 bags. Plant facilities not adequate for present contracts of 27,075 acres.

Insistent demand for 73,000 additional acres of sugar beets by present growers and other farmers on adjacent farm lands. Total estimated productive ability in excess of 3,000,000 bags (150,000 tons of sugar).

Three or four additional processing plants greatly needed.

Proximity to market.—Five hundred to one thousand five hundred miles closer to consuming market. Low cost of final delivery and less demand on crowded transportation facilities.

Low production cost.—High degree of mechanization permitted by large, level, regular fields. Progressive cultural practices. Nonirrigated but have good tonnage with high sucrose content and purity.

Area needs sugar beet acreage.—Cash crop needed to replace surplus cereal crops, and to provide low-cost auxiliary feeds for dairy cattle and meat livestock.

Area history.—The Red River Valley of North Dakota and Minnesota is the alluvial bed of prehistoric Lake Agassiz. Its almost unlimited accumulations of Barnes, Bearden, and Fargo silt loams are ideally adapted to sugar-beet production. The Valley, south of the Canadian line, is roughly 225 miles long and 40 miles in width. The area of choice soils that are especially adapted to sugar-beet culture ranges from 10 to 20 miles on each side of the river itself. It may be said conservatively that it covers 4,500 square miles with a gross acreage of 2,850,000. This area is all intensively farmed, having an average gradient of less than 1 foot per linear mile. The land is all tillable with a minimum of waste for the beds of streams, ditches, highways, and roads. Shelter belts and planted woodlots and farmsteads occupy a very small percentage of the total acreage.

Climate and rainfall.—The climate is well suited to sugar-beet culture, having long hours of relatively cloud-free sunshine during the growing season, with ample natural moisture. Over 75 percent of the total annual precipitation occurs during the sugar-beet planting and growing season. Top irrigation is practiced with good results by a very few growers. At the end of the summer when beets are maturing the temperature is moderate with cool or cold evenings and nights, resulting in a profound effect on sucrose accumulation in the sugar-beet roots. Vegetative growth is checked by the low temperatures but photosynthetic activity and sugar storage in the beets is stepped up greatly. The district average sugar content averages better than 16 percent, with a high degree of purity.

Production, present and potential.—The 1942 contracted acreage of 27,075 will, on the basis of the past 5 years' average yield, produce more tonnage than the

single processing plant at East Grand Forks, Minn., can handle. The company contemplates the transfer of from 50,000 to 85,000 tons of Red River Valley beets to another plant at Chaska, Minn., 250 miles away. With normal conditions prevailing the 1942 sugar production of the beet fields of the fertile area will exceed 40,000 tons, well over 800,000 bags of refined sugar.

In the counties bordering on the Red River there is an active demand by present growers and other neighboring Valley farmers for about 73,000 additional acres of sugar-beet plantings which can be brought into production in 1943 if factory facilities are made available. This added acreage would result in the production of from 150,000 to 160,000 tons (more than 3,000,000 bags) of refined sugar relatively close to the market where it is finally consumed. The total utilization of this productive ability would necessitate the construction of three and probably four plants.

Proximity to consumer market.—The Red River Valley is from 600 to 1,500 miles closer to the consumer market than any other area where any marked expansion of production is possible. This means a lowered cost of delivery to the consumer and a lessened strain on already overtaxed transportation facilities during the war emergency.

Low production cost.—The adaptability of our large, level, rectangular fields to complete and efficient mechanization has resulted in a markedly lower cost of production than is enjoyed by any other area. This factor is contributed to by the absence of irrigation expense and by the moderate value of our farm lands. Hand-blocking of sugar beets has been almost eliminated from our operations, and complete cross cultivation of our 1942 acreage will reduce by more than 25 percent the amount of migratory "stoop labor" required under the methods used a few years ago. From \$38 to \$40 per acre is quite generally regarded as a fair cost of production, including a land-use charge. The tonnage yield has constantly increased with the development of increased efficiency in cultural practices, reaching a high of 11.78 tons per acre in 1941 and a 5-year average of 10.13.

Economic need for sugar-beet acreage.—Sugar beets are greatly needed in our systems of crop rotation as a cash revenue crop to take the place of acreage taken out of the production of wheat and other surplus cereal crops. They are also badly needed because beets are one of the few intertilled rowcrops that have proven wholly adaptable to much of the valley area, and farmers must have dependable intertilled crops to aid in control of noxious weeds and in soil maintenance. Sugar-beet culture also fits almost perfectly into our systems of combination crop farming and livestock breeding and finishing, and dairy farming. The byproducts from beets, beet pulp and beet tops and molasses provide excellent low cost auxiliary feeds for all types of cattle, sheep and hogs.

Mr. RISING. Up in Montana, the State represented by Senator Murray, we have very similar conditions as prevail in the Minnesota-Dakota area, where in the southeastern and northwestern and western parts of Montana there are many areas that now desire to increase the acreage that they are now producing and to secure factory locations so that new growers may engage in the production of sugar beets.

The Senator called attention particularly to one group of farmers who have voluntarily held meetings and are offering 11,000 acres at the present time to any producer that will take the beets from this particular area. They have sent representatives from their farm organizations to confer with the Utah, Idaho, and Great Western Sugar companies in the hope that they will find some method of contracting at least a portion of those. I have a memorandum written by the president of their association that I offer for the record.

(The memorandum referred to reads as follows:)

WESTERN BEET GROWERS ASSOCIATION,
Great Falls, Mont., March 18, 1942.

Mr. E. W. RISING,
Executive Vice President, Western Beet Growers Association,
Washington, D. C.

DEAR MR. RISING: I am writing you this letter to give you a picture of the sugar-beet situation in the west Great Falls area at the present time, to emphasize our urgent need of a new processing plant and to ask that you lend us your assistance.

The area I am referring to includes parts of Cascade, Teton, and Pondera Counties west and northwest of Great Falls within a radius of 100 miles and includes the Sun River reclamation project with over 103,000 acres under irrigation, the Conrad-Valley Carey Act project with 65,000 acres and smaller irrigation districts and privately owned irrigated lands of approximately 32,000 acres, making a total of 200,000 acres of irrigated land with water storage facilities of nearly 400,000 acre-feet.

Assuming that 40 percent of this irrigated land is not adapted to beet growing because of soil types, drainage, etc., which is a very liberal allowance, there remains 120,000 net acres of irrigated land having an ample water supply and excellently adapted to the growing of sugar beets. Proper rotation practice requires approximately 25 percent in sugar beets each year. Using this proportion, we have an available annual beet acreage of 30,000 acres or nearly twice the processing capacity of an average-size beet-sugar factory.

Sugar beets constitute the only cash crop upon which irrigation farmers of this district can rely due to climatic factors. The average tonnage per acre is around 11½ tons but the sugar content is high, running from 16 to 19 percent.

The Great Northern and Chicago, Milwaukee, St. Paul & Pacific Railroads both run through the area and afford excellent transportation facilities.

Our farmers want to grow sugar beets and have pledged themselves to plant 11,000 acres as soon as a factory is definitely promised. In 1940 we planted approximately 5,000 acres, in 1941, 3,700 (due to Agricultural Adjustment Administration restrictions) and in 1942, the acreage will be about that of 1940. Our beets go to the Chinook plant of the Utah-Idaho Sugar Co., 140 miles away, and our present acreage is the maximum that they will contract for.

There are several suitable factory sites within a radius of 70 miles from Great Falls. Both natural gas and coal are available as fuel for a factory and there are also large deposits of lime rock within practicable hauling distance.

Yours very truly,

H. R. LENS,

President, Sun River Beet Growers Association.

The CHAIRMAN. What about the retail price of sugar, Mr. Rising? Do you think that it should be fixed like the wholesale refinery price?

Mr. RISING. I don't consider myself, Mr. Chairman—

The CHAIRMAN. Just as a consumer, just as a citizen of the country.

Mr. RISING. I don't think the matter of another half cent would stop the consumer from buying the sugar that he wants, if that extra half cent will move that sugar from the producing point to an area in which it is needed. It is my understanding that the extra half cent a pound will move 300,000 tons or more of sugar from the West to the areas of the East that are short. I think the consumers will be very glad to pay that half cent in order to obtain that sugar.

Now one more thing, Mr. Chairman, and that is the question of giving some assurance to the processors—while I don't represent the processors, I do know that you would not expect any investor in plant facilities to invest two million or two and one-half millions of dollars in a processing plant without any assurance whatever of more than the use of that plant for a year.

The CHAIRMAN. Or during the emergency?

Mr. RISING. Well, that is correct, but under the law as I understand it, the Secretary of Agriculture cannot go beyond the current year. In other words, if next year something would occur that sugar could be brought in, which we do not expect, of course, from the Philippines or other places, under the law those outlying points would be entitled to bring in those sugars allowed under the quota and domestic produced sugar in excess of the quota would have to lie in storage and could not be disposed of. Certainly somewhere along the line there must be changes made in the present Sugar Act which will make it possible for the investor to feel that he has some assurance that his investment will not be placed in the discard immediately

the emergency is over. I don't think it will be necessary to give a long assurance—I don't know how long that would be required, but certainly a reasonable length of time is required.

The CHAIRMAN. In other words, something has got to be done to attract the capital into the investment with reasonable security?

Mr. RISING. You must give them at least reasonable assurance—I don't think it is necessary to give them assurance over a long period of time.

The CHAIRMAN. In order to protect their initial capital?

Mr. RISING. That is right, and give them a few-years' operation.

The CHAIRMAN. Thank you very kindly, Mr. Rising.

Is Mr. Bunker here?

Mr. BUNKER. Yes, sir.

The CHAIRMAN. Do you have a prepared statement, Mr. Bunker?

Mr. BUNKER. No; I have not, Mr. Chairman.

The CHAIRMAN. Please give your name and official position.

STATEMENT OF ELLSWORTH BUNKER

Mr. BUNKER. My name is Ellsworth Bunker, and I am president of the National Sugar Refining Co., also chairman of the Cane Sugar Refiners' Advisory Committee, set up by the War Production Board.

Mr. Chairman, I came—I have not prepared a statement—I came prepared to answer questions. I might make the observation that I think the cane-sugar business is not one so much of supply as it is of transportation, getting the sugar to the points where it is needed.

The CHAIRMAN. You mean on account of the scarcity of box cars?

Mr. BUNKER. Primarily on the scarcity of bottoms.

The CHAIRMAN. Methods of transportation?

Mr. BUNKER. Primarily due to the scarcity of shipping, scarcity of bottoms. The movement of sugar from Cuba and Puerto Rico to the mainland has been considerably behind last year, in fact, not much more than half what it was to date at this time last year.

Mr. HALLECK. What is the outlook, is it going to get better or worse?

Mr. BUNKER. Mr. Halleck, I cannot answer that. My impression is that it is not going to get better immediately, and for that reason, the War Production Board, jointly with the Defense Supply Corporation, the War Shipping Administration, and the Office of Defense Transportation, are working on alternate means of shipping. It is proposed to move sugar from Cuba, and perhaps later, Puerto Rico, to Florida or southern ports and then to move that sugar by rail to the eastern seaboard, Baltimore, Philadelphia, New York, and Boston, where it is most needed.

It has also been proposed to use the inland waterway facilities from Florida as far as Philadelphia. That, I understand, can be used for the entire distance without going outside at all.

Now those are supplementary means of transportation which are being developed. The War Production Board has been very energetic in trying to get that transportation started. They have undertaken some other measures to relieve the situation, and one is—which I expect will be undertaken shortly—is zoning orders which will restrict markets into which refiners may ship sugar. The purpose of that is to try to fill up these eastern markets by using the available

supply in the East, and they have also undertaken to move beet sugar from the West into the Eastern States.

Mr. HALLECK. Mr. Chairman, might I—

The CHAIRMAN. All right, go ahead.

Mr. HALLECK. What is the position of the rails on the eastern seaboard at the moment; are they handling this increased volume of traffic with dispatch and satisfactorily? Have they got enough equipment to get that moved?

Mr. BUNKER. Well, we have not moved yet, Mr. Halleck, any sugar from Florida by rail. That is just beginning. We expect to get the first cargo in there at the end of this month. I cannot answer that question with any degree of accuracy; I don't know, but my understanding is that cars will be available for that movement from Florida or southern ports, such as Mobile. I understand that there is a good deal of equipment going down that way for shipment from these ports and that empty cars will be available coming back.

Mr. HALLECK. I had in mind the fact that probably the difficulty of getting oil and petroleum products into the eastern area is also adding to the burden of the railroads.

Mr. BUNKER. My understanding is that in that connection they are contemplating the possibility of using the inland waterway for moving oil as well as sugar.

Mr. HALLECK. Of course, that is all important in determining the necessity or advisability for extending other sources.

Mr. BULWINKLE. There are some of those large tankers which they cannot use in the inland waterways.

Mr. BUNKER. Yes; they would have to transship those. The War Production Board and the War Shipping Administration have been in close touch with the railroads on that. I think they feel they can handle the problem of sugar by that method.

The CHAIRMAN. Now you represent the sugarcane part of the business?

Mr. BUNKER. That is right, the refiners.

The CHAIRMAN. How much can the sugarcane producers increase the sugar production if they are encouraged to do so, within this year and next year?

Mr. BUNKER. Well, I think the production in Cuba, Mr. Chairman, will increase without any other encouragement than the present price situation, the fact that there are no restrictions, by about half a million tons; I would think that it would increase for the following year another half million tons.

The CHAIRMAN. What about here in the continental United States?

Mr. BUNKER. I should imagine that Louisiana and Florida, which are the cane sugar States, would probably increase another 200,000 tons, two or three hundred thousand tons.

The CHAIRMAN. Even on the present set-up, without additional facilities?

Mr. BUNKER. I should think so, there are facilities in Cuba to handle the additional production without any new equipment or factories.

The CHAIRMAN. How much are they capable of producing here in the continental United States?

Mr. BUNKER. Well, I cannot speak for the beet industry—

The CHAIRMAN. I am talking about sugarcane.

Mr. BUNKER. Oh, sugarcane?

The CHAIRMAN. Yes.

Mr. BUNKER. Well, Louisiana has produced, I think, about half a million tons of sugar; the Florida people say they can increase very largely if they can put up new factories. I don't know, I would rather have you ask that question—

The CHAIRMAN. Have you any idea about whether or not the retail prices of sugar should be fixed?

Mr. BUNKER. Well, speaking personally now, and not for my industry, I should think if you are going into rationing or attempting to, there ought to be some control over the mark-up.

The CHAIRMAN. Any other questions, gentlemen?

Do you have any other statement you would like to make, Mr. Bunker?

Mr. BUNKER. No, I think not, Mr. Chairman.

The CHAIRMAN. Well, tomorrow you will get a copy of this testimony. If you see anything you would like to enlarge on, you will be privileged to do so. We are grateful to you for coming down and making it possible for us to ask you these questions, and for the contribution you have made to our hearing.

Mr. BUNKER. I am very glad to come.

The CHAIRMAN. This is all this morning. We will stand in recess until 10:30 tomorrow morning.

(Whereupon at 11:10 a. m., the hearing adjourned until 10:30 a. m., Tuesday, March 24, 1942.)

SMALL BUSINESS IN THE UNITED STATES

TUESDAY, MAY 5, 1942

SELECT COMMITTEE TO CONDUCT A STUDY AND INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM IN ITS RELATION TO SMALL BUSINESS IN THE UNITED STATES, *Washington, D. C.*

The select committee met, pursuant to notice, at 10:30 a. m., in room 1301, New House of Representatives Office Building, Hon. Wright Patman (Texas), chairman, presiding.

Present: Representatives Patman, of Texas, chairman; Edward A. Kelly of Illinois, and Leonard W. Hall of New York.

The CHAIRMAN, Mr. Reed, of the Los Angeles Chamber of Commerce is here, and he has his manager for the Washington office present who would like to make a statement.

Just come around, if you please.

Please give your name and official position for the record.

STATEMENT OF JAMES C. INGEBRETSEN, MANAGER, WASHINGTON OFFICE, LOS ANGELES CHAMBER OF COMMERCE

Mr. INGEBRETSEN. My name is James C. Ingebretsen. I am manager of the Washington office of the Los Angeles Chamber of Commerce and its attorney.

We are deeply interested in the general problem which your committee is considering. We are especially interested in certain phases of that problem and, among others, difficulties confronting our California wine industry in its efforts to divert distilling facilities to the production of industrial alcohol.

I have a prepared statement which, because of a misunderstanding on our part as to just when we would be heard, I do not have in front of me. That is a statement prepared by members of the staff of the Chamber thoroughly familiar with the problem. I am not, and therefore I hope you will permit me to submit this statement to you later in the day.

The CHAIRMAN. I am acquainted with the situation, I think, involved in the making of industrial alcohol. The proposal has been advanced that they would move the stills from the Pacific coast area over to the northeast section; is that right?

Mr. INGEBRETSEN. Yes, sir.

The CHAIRMAN. In other words, deprive that area of the privilege of making alcohol out of grain—wheat and other grains—and by bringing the stills over to the Northeast that is what would happen, is it not?

Mr. INGEBRETSEN. That is right, sir.

Mr. HALL. When you say "northeast," what do you mean?

Mr. INGEBRETSEN. I cannot identify the area precisely without that statement in front of me, but it would be the general industrial area of the northeastern part of this country.

The CHAIRMAN. You think that you could make 190-proof alcohol out there?

Mr. INGEBRETSEN. My understanding is that there is a surplus of grain available in the Pacific coast area which would be easily diverted to the production of alcohol right on the Pacific coast, with the facilities of our wine industry.

Now, if those facilities are uprooted and scattered to other parts of the country, we are faced with a serious problem both now and after the war is over.

Most of the distilleries are small businesses. I have forgotten the exact number, but I believe there are about 675 small distilleries, all of whom have equipment which could properly be diverted for this purpose.

The CHAIRMAN. And changed to make 190-proof alcohol?

Mr. INGEBRETSEN. That is right, sir.

The CHAIRMAN. And if you use grain for making that alcohol, that releases a certain amount of sugar?

Mr. INGEBRETSEN. Certainly, sir.

The CHAIRMAN. And that much sugar, then, would not be necessary in the making of industrial alcohol?

Mr. INGEBRETSEN. That is true.

Mr. HALL. Has the war affected, to any great extent, your wine distilleries out there?

Mr. INGEBRETSEN. Of course it will affect them; and, again, I am speaking without having the text of the prepared statement clearly in mind. I would say that our prime interest now is in seeing that these facilities which we have, which, in normal peacetimes, might be devoted to producing wine which some of us like to drink and enjoy, diverted to producing industrial alcohol by their owners at their present locations; and I think our winery people feel the same way. They may want to preserve, in skeleton form, their sales organizations and wine-producing facilities. That is one reason why they do not want their facilities picked up and scattered all over the country. They are as patriotic as any other Americans and they should be given an opportunity to employ their own facilities in their own State in this war effort.

Mr. HALL. Is it your thought that if the facilities were diverted now, after the war you would lose them? Now, if you diverted your distilleries now to making alcohol, at the end of the war, would you not go back into the wine business again?

Mr. INGEBRETSEN. Yes, sir; if, on the other hand, you diverted the facilities, taking them away from California and scatter them to the four winds, then when the war is over you have them still scattered over the country and of no use to anybody; and a great many people would have to go into California and start all over again to reestablish the wine industry.

The CHAIRMAN. The argument has been made that most of the alcohol is used over in the northeast, and that for that reason it should be produced here.

The transportation problem is involved, but do you not see another transportation problem there, too—getting the grain over here to make the alcohol?

Mr. INGEBRETSEN. There is no question about that, and I think our prepared statement includes figures which demonstrate quite clearly that we will use on the Pacific coast, without shipment, all of the industrial alcohol that we can possibly produce out there.

Mr. HALL. And, of course, you are closer to the grain-producing areas. There is no question about that.

The CHAIRMAN. Without objection, we will permit the gentleman to file his brief in the revised hearing. We will have, first, an unrevised hearing printed, which will be available tomorrow morning, and you can take the unrevised hearing and extend such remarks as you may desire.

Mr. INGEBRETSEN. We appreciate that very much, and I am sorry that we happened to be here this morning without that brief. However, if I may, I will see that the brief reaches the reporter this afternoon for inclusion in the unrevised hearing.

The CHAIRMAN. Thank you, Mr. Ingebretsen; and thank you, Mr. Read.

(The brief supplied by Mr. Ingebretsen is as follows:)

We appreciate the invitation and opportunity to appear before your committee and are deeply interested in the important problems engaging your attention. We have manifested this interest and expressed our views as to what steps must be taken to preserve business enterprises upon other occasions. We are glad to have this particular opportunity of expressing our opposition to a proposal now receiving the consideration of the War Production Board which would open the way for monopolization of production of alcohol for the war effort and take away from a great many small- and medium-sized concerns the opportunity to become essential war production units.

I refer to the announced plan of Mr. Fraser H. Moffat, Chief of the Alcohol Section of the War Production Board, Chemicals Branch, and Mr. Matthew J. McNamara, special assistant to the Deputy Director of the Materials Division of the War Production Board.

Both of these men have stated publicly and before your committee that they propose to move distillery equipment from California wineries and brandy plants to Kentucky, Pennsylvania, and Maryland, there to reassemble the equipment and add it to existing facilities for the production of 100-proof alcohol.

It is my purpose, gentlemen, to point out how such a practice, if put into effect, will establish a precedent dangerous to the war effort and encouraging predatory raids by industries, sections of industries, and industrial areas upon each other, thus jeopardizing the position of the small businessman in the war-production program.

I am not an expert on the subject of alcohol production, wineries, or the industrial processes involved.

It is my purpose to demonstrate to this committee that there are broad economic dangers and disruptions to production in what we in California have come to term "industrial relocation." The moving of the wine-distilling equipment is a good example.

First, I want to point out that there is an economic and natural reason why these stills are in California. The grapes and fruit are grown within truck haul of the plants. It is sound reasoning that it is much better to move the raw materials a short distance and ship the finished product away to widely scattered markets than to ship raw materials a long distance around the country and then have a short haul for the finished product.

The Wine Institute, an association of all factors in the wine business in California, has formulated and submitted to the War Production Board a proposal to make its equipment available, in California, for the distillation of several million bushels of grain, owned by the Government and now in storage in the Pacific Northwest. The Institute has worked out this plan in every detail and stands ready to convert its facilities using the grain and at the same time

keeping solvent the thousands of California farmers who grow grapes and the 675 units in the California wine business, as well as making a considerable contribution to the war program in the production of high-proof alcohol.

The Wine Institute estimates that this year the production of beverage and high-proof brandy in California will total 28,400,000 gallons. This productive capacity can be turned to the distillation of high-proof alcohol. Production will come from plants that operate only 4 or 5 months a year on the average; the production could be stepped up if some encouragement were given to the wine industry to get into the production of industrial alcohol.

Instead of utilizing these facilities in their natural economic background, the industry is threatened with the expropriation and removal of its equipment to the East, to be turned over to other plants already participating in the war production program.

This thing has another angle in that such a move eliminates another important source of industrial alcohol, namely, the fruit and grape crops of California farmers in the event it becomes necessary to use this expensive source of material. From the standpoint of strategy, it would seem desirable to encourage and diversify the sources of essential war materials rather than to restrict and discourage potential producers, as would be the case in this instance.

Los Angeles and San Diego are producing 40 percent of the Nation's airplanes and are drawing on raw materials and parts producers all over the Nation. The southern California aviation industry has not asked for, nor does the War Production Board propose, the removal of lathes, welding equipment, automatic screw machines, and other equipment to California from Chicago, St. Louis, Indianapolis, Hartford, or Cincinnati, much as we should like to have them. Such a move would bring down a veritable storm, and rightly so.

Yet, gentlemen, this illustration parallels the proposed movement of the distilling equipment of the California wine industry.

This is no time for bickering among industries or among geographic sections of the country. We should all be bending every effort toward efficient and smooth production. We can't do it by relocating or rebuilding industries or by reorganizing the business structure of the Nation. It can be done only by using every production facility in its natural economic setting and we had better do so by adopting the fundamental policy of confining long hauls to finished products instead of raw materials. By that I mean in the case of the wine industry, leave the equipment close to the surplus grain supply and ship the alcohol. Ways can be found to ship it, or powder plants should be built near the wineries on the coast that could utilize the alcohol there. We are certainly going to need powder on the west coast as well as in the East.

The utilization of the California wine industry for alcohol production should release sugar for what Mr. Fulton Lewis called "the public sugar bowl" before your committee and eliminate some of the stress in the sugar as well as the grain situation.

Now, as to the relationship between this matter and the small businessman: The California wine industry is not characterized by a few large operators. It is essentially an industry of a great many small and medium-sized operators and a few large ones. In California there are 675 distilleries, wineries, and warehouses that are factors in the business. They operate in 17 counties, mostly in agricultural areas; many small farmers depend upon them for an outlet for their crops. These are not Japanese or alien farmers. The grape land in many instances is not suitable for other crops. These wineries, distilleries, and small farms can be converted into essential war industries and also produce some of the normal wine business only so long as all of the equipment in the distilleries is available to them.

By taking this equipment from California and placing it in the hands of a few large industries the War Production Board is denying to a large number of small producers a share in the responsibility of the war-production program.

The precedent will be established for predatory raids by industries against one another which is certainly not conducive to efficient and smooth war production.

I cannot refrain from commenting in closing on some phases of the lack of understanding of the use and location of production facilities in their natural economic surroundings by the War Production Board.

This is a war of production and we must make use of all manufacturing facilities both large and small, and we feel that your committee cannot help but find in these hearings that the industrial pattern of the Nation has been developed over a period of time on sound economic foundations. Natural or favorable

conditions encourage the development of industries within certain areas. The minute the War Production Board begins to uproot these industries or their equipment and moves them about the country, you will find that production is going to be affected and in the case of the wine-distilling equipment, a thriving industry with an agricultural background will become economically impotent.

These relocations, if they tend to restrict the number of producers of vital war materials, or concentrate equipment that might be available to a large number of producers, cannot help but reduce the opportunities for small business units to become essential to the war-production program. This most certainly would be true in the proposed plan of the alcohol section of the War Production Board to move the distilling equipment from California to the East.

Businessmen should be encouraged to offer industry wide programs for conversion of their facilities to war production as the Wine Institute has done in its plan to make alcohol from Government grain. However, if in doing so they are met by proposals to expropriate their equipment and turn it over to other industries as the War Production Board proposes to do in the wine industry, there is not going to be much voluntary action on the part of the industry.

The CHAIRMAN. Mr. Gill and Mr. McCune, will you gentlemen come around please?

Now, these gentlemen are interested in printing, Mr. Hall.

Suppose you identify yourselves for the record, if you please.

Mr. GILL. My name is Ned Gill.

The CHAIRMAN. And your business?

Mr. GILL. Manufacturing printer, of Houston, Tex.

The CHAIRMAN. And you, sir?

Mr. McCUNE. My name is M. M. McCune; I am secretary of the Graphic Arts Association, Houston, Tex.

The CHAIRMAN. Mr. Gill, do you represent the printers in this area or the Graphic Arts Association?

Mr. GILL. No, sir; I have no connection with the Graphic Arts Association.

The CHAIRMAN. But you are familiar with their needs and with their demands?

Mr. GILL. Thoroughly, sir.

The CHAIRMAN. And their situation in this program?

Mr. GILL. Yes, sir.

The CHAIRMAN. I believe you gentlemen have something about the distribution of printing, out to the remote areas from the Government Printing Office here in Washington; is that so?

Mr. GILL. Yes, sir.

Mr. McCUNE. Yes, sir.

The CHAIRMAN. Which one desires to be heard?

Mr. McCUNE. If I may, sir.

STATEMENT OF M. M. McCUNE, SECRETARY, GRAPHIC ARTS ASSOCIATION, HOUSTON, TEX.

Mr. McCUNE. I have this prepared statement, and I will read it.

The printing industry of our Nation is looking at the near future with a great deal of fear, and unless some relief is given it will, in whole or in great part, inevitably face bankruptcy. While the printing industry can be properly termed "little business," please let us call to your attention two facts:

1. Printing and its sources of supply—ink, paper, and so forth—represent the largest invested-in business in the world.

2. For dollar volume, it stands fifth in the Nation.

While we are pleading for relief for our industry we are not attempting to secure relief from sacrifices that are inevitable and part of our war effort. We do wish to do all within our power to survive as an industry. We gladly assume our share of sacrifices and dislocations as we, too, believe in our country and are going to see our war effort result in final victory. We do believe that it is in the interest of any post-war economy that, insofar as is possible, businesses be allowed to survive so that they can do their part in the readjustment period that will follow the termination of the war.

The printing businesses that we represent locally are all classified as "small business." They are firms who are doing a volume, in normal times, of from \$30,000 to \$250,000 a year. This normal volume is showing, at present, a terrific decline due to the freezing of various industries and the reluctance of remaining firms to use printing as freely as has been their custom. Naturally, things are going to grow even more serious for us as more firms are restricted, as a result many, many printers will face bankruptcy. While this is true, we further face the fact that some poorly financed printers have to close regardless of any relief that can be secured. At the same time, it is vital that some of the printers be saved and they can be if they receive some assistance.

Now, we have spoken of relief and assistance, but we do not mean either unearned or, shall we say, "dole" assistance. We are willing to work and work hard for anything that we secure. We want Government printing that is in excess in dollar volume of that amount produced in normal times by the Government Printing Office. We should like to see this printing divided equally and fairly throughout our Nation, and it can be done economically with very little effort on the part of the administrator.

We now feel that the Public Printer has not dealt fairly with an industry of which he was once a part. The records show that he has increased the number of employees at least two-fold and is preparing to do two and one-half times the normal volume of the Government Printing Office. We know that it was never the intention of anyone in public office to have any part in openly competing with private enterprise, but the Public Printer is doing this, and no doubt thinks he is justified in doing so. We believe that he is wrong, and we are sure that ours is for the best interest of our Nation.

Referring again to the records as furnished us, the Public Printer in his requests for bids—and some Government printing has been going into private plants—states that it is his aim to award at all times the job to the lowest bidder. These bids are compared with Government Printing Office costs. Now, the Public Printer is operating a large establishment at a low-cost advantage that cannot be equaled by any other firm. He has no rent, taxes, or depreciation to pay. He has no selling costs, as his customer is assured, and he has no bad debts, nor must he maintain a credit department. He further has the advantage of securing preferential treatment as to prices for his materials. Now, while we fully understand the laws and regulations governing the operation of the Government Printing Office, let us reveal to you just what highly competitive

bidding is doing to the printing industry. On each job when it is ascertained that for some reason it cannot be done in the Government Printing Office, a great many requests to bid are sent out by the Public Printer. Bids are sent to some firms who are desperate and are willing to do anything to keep from laying off more of their employees. They are even willing to do this work below cost, supplementing the difference with some of their reserve, and we all know that this is not sound business.

We believe that the only fair and equitable way to award printing is through negotiated contracts wherein the contractor is at least able to cover his costs. We suggest then that it would not be out of line that the regulations pertaining to the operation of the Government Printing Office be changed with the idea of assisting the civilian industry. The Public Printer now has the authority by Executive order to negotiate contracts on a cost-plus basis. We submit the fact that this authority has not been used, to our knowledge, in contracting for printing but has been used in securing supplies.

From a statement made by the Public Printer, we learn that his Office expects to complete some \$50,000,000 worth of printing within the present fiscal year. This is an increase of \$30,000,000 over the previous fiscal year, and he expects to purchase between \$5,000,000 and \$10,000,000 of this from the civilian industry. He further plans to produce this amount with approximately the same number of employees as were used to produce the \$20,000,000 volume. This is definitely impossible and is very evident on the face of it. We know that living conditions in Washington are severely taxed. We also know that some printing must, because of its nature, be produced in the Government Printing Office.

Mr. HALL. Can I break in there? I was wondering, while you were talking about the force over in the Government Printing Office, being doubled, over what period of time it covered.

Mr. McCUNE. Over a period of several years.

Mr. HALL. Over what period of time?

Mr. McCUNE. Just one moment. I believe that has occurred within the last 3 or 4 years.

Mr. HALL. Well, has it occurred during this emergency?

Mr. McCUNE. No, sir.

Mr. HALL. The reason I say that, I have the Public Printer's testimony, and he shows that on June 30, 1940, they had 7,172 employees and on March 1, 1942, they had 7,470 employees.

Mr. McCUNE. That is right.

Mr. HALL. So that is not a very big increase.

Mr. GILL. That is not a long lapse of time.

Mr. HALL. That is, the period of emergency, because before the emergency you were being affected?

Mr. McCUNE. The point we wish to make is that with 7,172 employees he did \$20,000,000 worth of volume and he expects to do two and one-half times that much with less than 300 more employees.

Mr. HALL. Then, he is either working his men harder today, or they were not doing much work before.

Mr. GILL. That is it exactly.

Mr. McCUNE. We feel that it was not too highly efficient before.

Mr. HALL. I was wondering about that twofold or doubling up of employees.

Mr. McCUNE. That does not particularly affect us; that is not our angle of approach.

Over the past 5 years, they have been increased. Of course, that was not all emergency, it was partly increased business, the same as was true of the civilian industry. We have also increased our business, and the point was that if it takes that many employees to do \$20,000,000 worth of business, certainly the Government Printing Office should be satisfied to continue to do that \$20,000,000 of business in order that the civilian industry may be helped to survive and no one lose their job in the Government Printing Office because of that fact.

Mr. HALL. In other words, as I get it then, your theory is if this same amount of employees could do \$10,000,000 of business instead of \$20,000,000, you feel that they should be compelled to do \$20,000,000 and not the \$10,000,000?

Mr. McCUNE. Not particularly from that angle, but we know there is a lot of Government printing that must be done in the Government Printing Office because of the confidential nature, and, apparently, heretofore, it took 7,000 employees to do that confidential printing, and our point is, by and large, because of the expanded war efforts we are losing our customers and his business; that is, the business of the Government Printing Office has been growing more than twofold, and we want to survive, and we feel that we will survive if given a portion of that more than twofold business.

Mr. HALL. And we want you to survive.

Mr. McCUNE. We have got to, sir.

Mr. HALL. All right, sir; go ahead.

Mr. McCUNE. However, we do not know that to increase the production capacity of a plant more than double is not going to cause any additional machinery to be installed, facilities to be enlarged or improved, nor any more employees to be engaged. That, let us repeat, is improbable.

Mr. GILL. That answers your question, does it not?

Mr. HALL. Somewhat.

Mr. McCUNE. Let us again plead with you, purely upon a sound business basis. Frankly, we believe that the Public Printer is underestimating the amount of printing that will be required. Even so, let us take his statement of \$30,000,000 and place it in the civilian industry. That would be the difference between a number of plants closing and remaining open. Distributing this \$30,000,000 on the basis now employed by the Public Printer would, at its best, definitely be no asset to the industry, but would only prolong the agony.

We believe that we are fundamentally and definitely a part of our Government and as such are entitled to every consideration. We comprise one of the most essential industries, employ many millions of highly skilled people, and are, certainly, because of our invested-in status, one of the largest taxpaying industries of the Nation.

To sum up a rather lengthy statement, we would ask:

(1) That the regulations pertaining to the Government Printing Office be changed to permit assistance to a hard-hit industry.

(2) That it be made possible that negotiated contracts can be made with civilian printers on a cost-plus basis.

(3) That the paper now furnished by the Public Printer be purchased in localities where the printing would be done.

(4) That instead of perpetuating the Government Printing Office, some thought be given to saving a large industry that can do much in the readjustment period.

(5) That no further extension of Government printing resources be undertaken.

(6) That the War Department cease establishing additional printing plants.

(7) That the War Department secure more of its needs from the civilian printing industry.

(8) That the Public Printer be encouraged to cease his determination that his office must do more and more printing, but rather he attempt to help an industry of which he was once a part.

(9) That no preferential treatment be used in helping a particularly distressed locality at the expense of the rest of the country.

(10) That the printing that is to be used by the Government in certain localities be purchased there. For instance, the sugar-rationing-information sheets which were shipped to Texas from Ohio at considerable express expense to the county government.

(11) That perhaps Government needs of printing and other supplies could be contracted for by the various offices of the War Production Board. A part of that office is known as the Contract Distribution Service, and would be capable of doing this very thing. We strongly advocate one procurement agency. This would be of invaluable service to all small businesses who could be subcontractors of defense needs.

(12) That we are not after millions of dollars of volume but can survive locally with much less.

We submit our thoughts with the hope that something can be done to help us.

The CHAIRMAN. Your suggestion there about one procurement agency is a very interesting one. I realize that there are certain types of machines that only highly specialized people would know anything about submitting specifications on, like machine guns and things like that.

Now, one procurement agency, I think, could do a wonderful service if it had the power and the discretion to select the items and commodities they wanted to deal with, and those they did not want to deal with.

Mr. McCUNE. That is right.

The CHAIRMAN. In other words, this committee discovered that a small manufacturer seeking a contract from the Government—he would be interviewed by the War Production Board, the Contract Distribution Office, and I think they have the finest set of books and papers and cards and card indexes of any organization that I have ever come in contact with in the Government service.

Well, this manufacturer is interviewed by the War Production Office, he submits answers to hundreds of questions. They have engineers go over his plant. They have accountants go over his books. After he spends all of this time, and this War Production Office has all that information about that fellow's plant, if the Army wants to make a contract in that section, the Army heretofore has not been paying any attention to those books at all, but the Army would send a man out there themselves, and that man would get identically the same information that the War Production Office had gotten and pay no attention to this other office's reports or investigation. Then

the Navy, if interested in a contract in that section, would go through that whole procedure again, and that manufacturer would have to give that information all over again. They would spend days and days getting exactly the same information, and that same thing would happen again in the case of the Maritime Commission, and the Procurement Division of the Treasury, and at this time, when manpower is so important and it is so necessary that we direct our energies in the right way, it occurs to me that that could be stopped, and I have talked with Mr. Nelson about this, and he is in sympathy with trying to do something about it. I do not think he is in favor of one procurement agency for the reason I mentioned, but he is in favor of the stopping of all this duplication of effort and he told me yesterday, or rather, a couple of days ago, that substantial progress has been made and that they thought they would put a man in that office; that is, the Army and the Navy—and I mean by "office" the 120 offices throughout the country, and coordinate their efforts, and they are going to try and work out the same plan with the Maritime Commission and the Procurement Division of the Treasury, so that will be right down the line of what you have advocated.

Mr. McCUNE. Might I add one point more!

The CHAIRMAN. Yes.

Mr. McCUNE. Time, in procurement, is very essential. In the way in which the Government needs of printing is procured from civilian industry at present, there are many, many days of time which is lost by sending out bids, say, to as many as perhaps 1,000 printers all over the country. It takes days and days to estimate those jobs and to get them back and then correlate it and find out who is better suited to do that work. In other words, if it is going to be used, say in the State of Texas, the War Production Board or some Department of the War Production Board could negotiate the contract with that small businessman who is anxious for the work, and that could be done within 24 or 48 hours, and he could be in production almost before the request would get back to Washington. Then you would have saved maybe a dozen or perhaps hundreds of hours in time and a great deal of trouble in preparing these answers to questions which are absolutely useless to them. Some of these estimates of printing jobs, Mr. Patman, take as much as 8, 10, or 12 hours, and sometimes longer, and the average printer, rather than spend that time and compete at below survival costs, will throw up his hands and pass it by, and he is in a hopeless situation.

The CHAIRMAN. You mentioned about the sugar-rationing cards. Did you say that they were shipped from Ohio to Texas?

Mr. McCUNE. Not the cards—I do not know where they were shipped from, but they were not printed in Texas. The information sheets, together with the sugar-rationing cards, the ones that go with those cards, were shipped to Harris County from some Ohio printer; he had printed these information sheets and the county clerk had to pay fifty-some-odd-dollars express charges for the information sheets alone.

The CHAIRMAN. When, if you had used the stock of paper there in Houston, Harris County, the express charges would not have been anything?

Mr. McCUNE. That is right. They could have been delivered in 15 minutes from the furthest point they might have been used; it would not have been any longer than 8 or 10 hours.

The CHAIRMAN. Of course, the paper had to be there, but your rate in Houston is about as low as the rate any place else in the country, primarily because of the water transportation, I presume?

Mr. McCUNE. That is right.

The CHAIRMAN. So, there is a case where the express charges certainly would have been saved, and they could have been expedited also?

Mr. GILL. If you will pardon the interruption, the paper coming into Houston comes in the carloads, generally, to the best of my knowledge, and this came in L. C. L. by American Railway Express.

The CHAIRMAN. Which is considerably higher.

Mr. GILL. Yes, sir.

The CHAIRMAN. Do you get much paper from Lufkin?

Mr. McCUNE. No, sir.

The CHAIRMAN. Are you not connected with the Graphic Arts Association?

Mr. McCUNE. Yes, sir.

The CHAIRMAN. What position?

Mr. McCUNE. Executive secretary.

The CHAIRMAN. The printing industry is badly, or greatly, affected on account of the national advertising being cut off, is it not?

Mr. McCUNE. Very definitely; yes, sir. In fact, that end of our business is practically gone, has practically disappeared.

The CHAIRMAN. I would hate to see the day come when our country newspapers could not survive, but it occurred to me that they are in a very desperate position now.

Mr. McCUNE. Yes, sir.

The CHAIRMAN. I remember that we used to see automobile advertising and tire advertising and refrigerators and things of that type, and that kept up the newspapers. Now, of course, you see some of it, by reason of advertising contracts that were made before Pearl Harbor, but you do not see much of it, and I do not know how the smaller newspapers are going to survive.

M. HALL. The outlook is not too good.

Mr. McCUNE. No, sir. Then, you spoke a moment ago about transportation. At the present time paper is purchased by the Government Printing Office from the mills, shipped into Washington, the paper then that is going to be used on printing by civilians is given to them is shipped out of Washington to this printer and he, in turn, ships the printed job to the locality where the printing is going to be used. In other words, the paper is shipped three times.

The CHAIRMAN. Whereas, if your plan is adopted, it would only be shipped one time, and that is using the lowest cost transportation.

Mr. McCUNE. That is right.

Mr. HALL. Of course we want to save the small printing man, as well as we want to save all small businessmen, but I think you recognize it, in your statement, that if you got all of the excess printing from the Government Printing Office, it would not be of very much assistance in keeping the small printing man alive throughout the country.

Mr. McCUNE. The printing business, by and large, is a small business over the country.

Mr. HALL. What is the total volume; have you any idea?

Mr. McCUNE. I imagine it is about two and a half billion dollars.

Mr. HALL. Two and one-half billion?

Mr. McCUNE. Yes, sir.

Mr. HALL. And if you got all of the printing above that previously handled by the Government Printing Office, it would amount to about twenty-five million?

Mr. GILL. At least.

Mr. HALL. That is only 1 percent of the country's total; is it not?

Mr. GILL. Right.

Mr. HALL. Of what real assistance would that be to the small printer, in keeping him open?

Mr. GILL. In this way: The printer has more equipment, on the average, than he is possibly going to use; now, then, we can cover up some of our equipment—in fact, we are planning at the present to cover up equipment as our business disappears, just close that department down, even to the point of running one press, in order to keep the name of this particular business surviving, and with what assistance we can get from the Government printing, and what we can hold, we are not going to lose a hundred percent of our business, by and large, but we are going to lose about 50 or 60 or 75 percent, and if we have a little more, we can survive with very few employees, and the business is there, ready to run afterward. Otherwise, if we have to close our doors and sell our equipment for junk and go out of business, then when the war is over, we have no business, no equipment, no men.

Mr. HALL. Well, do you feel, then, that this 1 percent which you might get from the Government, if you got it all, would be the difference between keeping on in business and closing up?

Mr. GILL. For many, many printers over the country now, it has not been of help, not half—the small country printer is going to be in a desperate situation, but say in the largest 20 cities in the country, if they can get a proportionate share of the printing to be used in their particular State, enough of that printing will be let out to keep half of the printers in the different localities surviving or in business, along with the businesses that is going to remain, regardless. Say they may have 40 percent of their normal business remaining, and get some assistance from the Government Printing Office, those businesses will be there when the war is over.

Mr. HALL. Even under your plan, then, you concede that the small business printer and the small-town printer will go out anyway?

Mr. GILL. I see no hope of survival.

Mr. HALL. The printers in the cities are getting the war work, and the little country-town printers are not getting any, so that your plan would not help the small-town printer; would it?

Mr. GILL. May I ask—what do you gentlemen of the committee term "small business"?

Mr. HALL. I do not think anybody has fixed the definition of small business as yet.

The CHAIRMAN. It is impossible to define. It is a relationship. In some businesses, a small business would be several million dollars a year.

Mr. GILL. I can see that.

The CHAIRMAN. And in other lines it is a few thousand a year, so it depends upon the nature of the business.

Mr. HALL. You just cannot fix the definition.

Mr. GILL. There are no printers in the country that are tremendous concerns.

Mr. HALL. Let me put it this way?

Your plan would help to keep going the so-called larger printers in the cities?

Mr. GILL. As I said, there are no really large or big printing concerns.

Mr. HALL. But it would not be of any assistance to all of the small printers in the small communities; am I right?

Mr. GILL. And it is not our fault that that condition exists, that there is no job so small that the country printers can produce; that is, jobs being handed out by the Government.

Mr. HALL. What about the rationing cards and questionnaires that are sent out from the county seats? Why could not the county printers, the small local printers, handle the printing for the county seats?

Mr. GILL. That probably could be done. Then you go into another phase and that is covered under the heading of "Manufacturing," and it is a technical problem.

Mr. HALL. And the country plants are not capable of producing it?

Mr. GILL. No, sir; not economically.

Mr. McCUNE. And, furthermore, the country publishers, by and large, are publishers of weekly newspapers, and I do not know what the answer to a country newspaper is; but I think that they are not going to be so much harmed as probably we are thinking.

Mr. HALL. I think you are all wrong there. I think the country newspapers, just as Mr. Patman says, will have terribly hard sledding because of the lack of national advertising.

Mr. McCUNE. He survives, more or less, on local advertising.

Mr. HALL. I do not think so. I do not think the local advertising forms any substantial amount of the income of these country papers at all, what they have been depending on are the advertisements of Chevrolet, Ford, Frigidaire, and so forth, for keeping the paper alive.

Mr. GILL. Is it not the intention of the War Department to publish an Army paper? I noticed something about that in the newspapers.

The CHAIRMAN. You mean an official Army paper?

Mr. GILL. I do not know what you mean by the term "official," although I think you might definitely say official.

The CHAIRMAN. I have never heard of that before. I know that certain divisions in certain corps areas have papers of their own, but I do not think the Army contemplates issuing one, at least they did not during the last war, and I have not heard of any at this time.

Mr. GILL. That would be more of a local thing, then?

The CHAIRMAN. Yes. Now, let's take one of my counties, down in my district; they issued a mimeographed publication of four pages, printed on each side, and the name of it is "The Drug Store News," and it told all about the happenings in that section, all over the county, and a copy of that was sent to all of the boys in the service from that county. Now, it occurs to me that that is a real constructive service to keep the boys from that particular county informed as to what is going on in the county while they are away, and there are a lot of publications that have been gotten

out, or could be gotten out, but I do not think any official publication is being gotten out by the War Department—as least I have no knowledge of it.

Mr. GILL. These camps—it occurs to me for what it is worth—take those located in our State, where we have a great number of camps, and they are all situated out from a town, some little distance from any town or shall I say “city”—they are helping that community by spending a part of their pay there in this community, and benefiting the small community and, of course, the larger ones, too, and insofar as any printers of any size being able to service the camp, that is out of the question, due to the cost of servicing the camp being so great, to be charged against the amount of purchases in dollar values, but I mentioned the matter to one smaller printer—this is Ellington Field that I have in mind—I suggested to a small printing man running a little newspaper, that “You could call on that camp and see if you cannot serve them with their forms,” and he was very thankful for the information, and did call on them and got the work, and did it for some time; to my knowledge, he was printing the forms for that camp for several months, not too much, maybe two or three or five thousand forms, but they helped him a great deal, and eventually may be the difference between him staying in business or closing down.

Now, those little local printing businesses are so spread out—they are not big in any one locality, but they are very big when you take them as a whole.

Mr. HALL. I do not say this in criticism, but you represent more or less the big printer in the field of printing, do you not?

Mr. GILL. No, sir. My plant is very small.

Mr. HALL. Generally speaking, I take it from this gentleman's testimony, that he was thinking of the printer in the city, the printing may be all small business, but as I take it from his testimony, he was talking about the bigger printers in the field.

Mr. McCUNE. That may be true.

Mr. HALL. That is true.

Mr. McCUNE. Yes, sir.

Mr. GILL. However, he represents plants doing between \$30,000 to \$250,000 annually, and that is a pretty wide spread.

The CHAIRMAN. I think the policy is now, I have been led to believe that the policy is going to be that they won't establish these printing plants unless it is absolutely necessary.

You take, for instance, there will be a training camp at Paris, Tex. Now, they have plenty of printing facilities there in Paris to do all of the printing that the camp needs, and it certainly would be wrong for the Government to go in there and establish the printing in competition with the people right there in business, and we have been led to believe that that policy will probably be changed to the extent that they will patronize the little printer rather than establishing their own plant at the camps.

Mr. GILL. That answers the question that has arisen in regard to the man in the little town.

Mr. HALL. I think that Colonel Hawes testified that there shall be no expansion of the present printing facilities through new plants or

enlargement of existing plants, except where it was absolutely necessary.

Mr. GILL. Let me ask this—who is going to determine this necessity?

The CHAIRMAN. Of course, some person who is at the head of the project where the printing would be used would necessarily determine it.

Mr. GILL. It could be no other way?

The CHAIRMAN. It could not be any other way, I do not think.

Mr. GILL. That is a complicated business, and I do not think if he determines the necessity purely by the fact of whether he was able to get his requirements or not, and he made his requirements reasonable, I do not mean so much as to volume, but as to the time, that judging from that, and that alone—in other words, going into a certain locality, we will say Paris, he will make an analysis of the available equipment and then, as his needs will increase, of course, as the time goes on, whenever it becomes impossible for the people in that district to supply him with his needs, then is the time to establish a plant, but that time will never be, because the printing equipment is so greatly under cover, I mean under canvas, that there are no needs that anyone could ask for that cannot be supplied very, very close to where they are needed.

The CHAIRMAN. I think we can pretty well leave that to the discretion of the Army.

Mr. Kelly, would you like to ask any questions?

Mr. KELLY. I just arrived from the meeting of the Interstate and Foreign Commerce Committee and I am sorry that I was not here to get the entire testimony, but unfortunately a person cannot be everywhere at the same time.

Of course, I do not know what the testimony presented here this morning was, but I would like to find out from the evidence that the printers have submitted from time to time, they maintain that the Government is the worst of the business competitors they have today.

Mr. GILL. That is right.

Mr. KELLY. How much of that printing is actually available that the Government could distribute out to the printers outside of the actual Government printing itself, that has been carried on here, always carried on, such as the printing of confidential reports for the Army and the Navy and the type of material and printing that has never been available for outside work—do you know how much money that involves?

Mr. GILL. The only records we have are in the previous testimony, and they give between the normal \$20,000,000 volume of Government printing, on the one hand, and what is estimated to be \$50,000,000 now, under the emergency.

Mr. KELLY. Whose figures are those?

Mr. GILL. Mr. Giegengack's. They are his own figures.

Mr. KELLY. And that \$50,000,000 of printing could be diverted to independent civilian printers?

Mr. GILL. Not entirely; no, sir.

Mr. KELLY. My understanding is that only about \$10,000,000 worth of printing would be placed with printers outside of Government

service and that the other must be under the control of the Government. Now, that \$10,000,000—I do not know how many printers that would keep in business per year.

Mr. GILL. We are contending that there is going to be or should be more than \$10,000,000 made available to the civilian industry.

Mr. KELLY. That is a thing I am trying to find out. Nobody seems to be able to answer that question. Outside of "approximately"—and we understand, of course, at the hearings in Detroit, the city of Detroit, the printers there are really in a—

Mr. GILL. In a sweat.

Mr. KELLY. Yes, because their chief revenue heretofore was from the automotive industry, or were interested in the automotive industry for practically all of their business, and they did not worry about soliciting magazine or periodical work because all their facilities were utilized right there in the city of Detroit.

Now, they are the hardest hit of all of the groups, and how much of that work can be given to these printers in the city of Detroit, and if they get it all, then the printers in the city of Chicago would put up a holler and complaint against discrimination, and I am awful anxious to find out just how much of that work can be given to the printers of the Nation outside of regular governmental work that must be controlled here by the Government.

Mr. GILL. We have only to go on Mr. Kelly's statements as the basis upon which we analyze the business consumption of printing. In other words, various businesses vary in their printing requirements. In legal offices, their requirements for paper and so forth are higher in proportion than practically any other line of endeavor, but every business today pays, in one way or another, a certain number of cents out of every dollar for printing, and we have no facts or figures, other than facts during normal times, and the statement there is that the Government required \$20,000,000 worth of printing to carry on its normal business, and if the Government is going to spend \$1,000,000,000, a certain percentage of that goes into printing. I do not believe, and there is no one in the printing industry but will agree with me in my belief of the necessity of a large amount of expense in the coming months and that this \$75,000,000 or \$50,000,000, or whatever it is estimated, will be required for printing, will fall far short of what is going to be actually needed.

The CHAIRMAN. Mr. Gill, would you like to have the privilege of extending your remarks in the record? In the event you would like to do so, that will be your privilege.

Mr. GILL. I am afraid I do not follow exactly what you mean.

The CHAIRMAN. What I mean is, when you read the remarks you have made in print, possibly you would like to give a fuller explanation, extend your remarks further.

Mr. GILL. I would certainly appreciate that.

The CHAIRMAN. You may do so.

The CHAIRMAN. And you, Mr. McCune.

Mr. McCUNE. Thank you, sir.

The CHAIRMAN. Without objection, it is so ordered.

Are there any other questions?

Mr. KELLY. Do you know of any cases where, through the shortage of machinery, printing presses, and the like, printing establishments

have had their machinery seized by the Government and brought here to Washington, or to the other established places where the Government does its printing?

Mr. GILL. I can answer that this way, Mr. Kelly, that there have been a great number of printing concerns closed down, to our knowledge, and that machinery has been set up on the block, and it would not be necessary to seize it as the Government could get all it wanted, in that way, without any trouble whatsoever.

Mr. KELLY. I guess that is all.

The CHAIRMAN. Have you any other questions, gentlemen?

(No response.)

The CHAIRMAN. Thank you very much, gentlemen, for your testimony.

I want to put into the record a statement by a gentleman from San Francisco on industrial alcohol, and, without objection, that will be inserted in the record here.

(The statement referred to is as follows:)

THE OSCAR KEENE COPPER & BRASS WORKS, INC.,
San Francisco, Calif., April 1, 1944.

HON. WRIGHT PATMAN,
Terarkana, Tex.

MY DEAR MR. PATMAN: Following our short interview in your office in Washington a few days ago, and also our telephone conversation of yesterday as to the statements made by Fulton Lewis, Jr., regarding the sugar situation, and in reference to the production of spirits used in the manufacture of powder for the United States Government; also the utilization of farm products, particularly grain and other sugar- and starch-bearing materials, I have scrutinized his statement very carefully, and I am thoroughly convinced that every assertion and remark made by this gentleman are absolute facts, and I can see no reason why 3½ million tons of sugar should be impounded for the purpose of converting them into alcohol when we have such a large quantity and surplus of starch-bearing materials that will yield volumes of spirits per ton, thus relieving the Government of this burden and producing a finer grade of spirit in one distillation than can be obtained from molasses or sugar.

For your information I will state that our business is primarily designing, building, erecting, and fabricating equipment for distilleries, breweries, wineries, milk condensing, canning, sugar house, and chemical apparatus for the past 33 years. Therefore, I believe I can speak with some authority. Furthermore we have fabricated and erected 95 percent of the distilling equipment used on this Pacific coast, the Hawaiian Islands, and the Philippines, and due to that fact we know exactly the amount of spirits that can be produced in this territory, the speed with which it can be produced, and the changes, if any, necessary to enable our distilleries to get to work when the "go ahead" signal is given them.

I see in Mr. Lewis' testimony that we have 1,500,000,000 tons of grain surplus waiting to be converted into alcohol, and, with this volume, it does not make sense to think that three and one half million tons of sugar are being impounded, thus causing this commodity to be rationed to the American public. It is an insult to ordinary intelligence. I believe that after all the farmer is the backbone of the country. If he prospers we prosper, and there is no greater spending under the whole canopy of heaven than the farmer when he gets a few dollars in his hands. Therefore he deserves some consideration.

I notice Mr. Fraser Moffat, formerly of the United States Industrial Alcohol Corporation, is in charge of the Alcohol Section, as well as Mr. Matthew J. McNamara, formerly of the National Distilleries Production Corporation, who is assisting. No doubt these two gentlemen are very capable and are familiar with the alcohol situation by their respective companies. Their motives are quite obvious. If they accomplish that which they have in mind, their achievement will be most outstanding, insofar as the alcohol and whisky interests are concerned.

Our Government, from the information I have gathered while in Washington, is in urgent need of alcohol for the production of smokeless powder. The question arises when do we want it, and when must we have it? We are in a conflict at the present time, the like of which has never been known. It therefore behooves us to quit dallying; and to get into the production without further loss of time before it is too late; otherwise we are going to bear those Japs sing, "California, Here We Come."

I have read the testimony of Mr. McNamara, and I quote: "We hope to take some 16 or 18 rectifying columns as we know them and which are now in California in several of the many brandy plants out there, and we want to move them East and set them up in appropriate high-wine plants in Kentucky, Pennsylvania, and Maryland, which when installed will make those independent plants 100-proof producers, as are 20 or 30 which are now on the job. I cannot tell whether it is going to be 3 months or 0 months, but the change when all those apple plants are added and we are going along, I am quite sure that an addition to the 100,000,000 gallons that the existing plants ready to go are now producing, we can add another 100,000,000."

He is quite right in the statement 3 to 6 months, as they are not familiar with the units they intend to confiscate; but what may happen during that interval, when the present plants in this locality can be converted and made to produce alcohol within 30 days? He states if a carload of corn is shipped into a plant in California, we would not know what to do with it. We have practically no corn-grinding equipment, our fermenters would have to be changed, and we have no beer stills in which to run it. Evidently he is not very well informed. We have at this very moment nine stills with a capacity of 300 to 400 gallons of 100-proof spirits per hour each, capable of handling grain mash. That is why I say we can begin producing alcohol in 30 days.

We have 65 continuous stills capable of producing 100-proof spirits, ranging in capacity from 125 to 400 gallons per hour. We have also 35 or 40 capable of producing a like amount of 180- to 185-proof spirits with very slight changes, and when supplied with a high-proof material can be made to produce from 100 to 200 gallons of 190-proof spirits per hour each.

For your information I will state further that our stills operate full capacity from September 1 to the end of December; in fact some of them run through the month of January. They operate continuously with no shut-downs, and at times, our vinters suffer a shortage of brandy; hence it is quite obvious to see what would happen to the California grape crop were any of these units to be moved. As a matter of fact it would be the grower who would be made to suffer the loss as he would have no market for his grapes.

Another important fact is that our Government is asking for 800,000 tons of raisins this coming season. You probably know in the making of raisins, the grapes when ripe are picked and laid on paper trays in the field. While California is known as the "land of sunshine, fruit, and flowers," there are times when the elements turn against us and we have what is termed "unusual weather." We may get 3 or 4 days of rain, either light or heavy, and the only raisins that could be saved are those on wooden trays that could be stacked. Those on paper trays would just be ruined, and that would be 90 percent of the crop. In addition to that the remaining grapes that are usually shipped to the eastern markets would mildew, and the only salvage the grower would then obtain from his crop would be to convey them to a winery where they would be converted into alcohol. Were these stills to be moved so that conversion could not be made, the growers' entire season's work and effort would have been for naught.

Therefore in a move of this kind very careful consideration should be given the subject. We have at the present time in the State of Washington 40,000,000 bushels of wheat which can be converted into alcohol with practically no effort. This grain belongs to the Commodity Credit Corporation as mentioned by Mr. Lewis. I have found while in Washington, D. C., that this grain is available and can be had when asked for. In addition we have an all-concrete building located in the heart of the territory where the majority of our distilling units are located, and where the conversion will be made. This also was offered us by the Commodity Credit Corporation. We have the necessary cooperage, fermenting tanks, storage facilities, mills, cookers, steam plants, in fact everything that is required to enable us to produce alcohol in the time stated, namely, 30 days.

Then, too, we have the necessary tank trucks in abundance to convey the low wine to the various distilleries, and on the homeward trip to return the high-proof spirits to a central reservoir.

It does not require much vision to see through this whole picture; in fact it is an open book. At this time the whisky interests are a nonessential industry. They become an essential industry the moment they begin to produce alcohol along with their present business.

It is also their desire to prevent if possible any distiller on this coast from producing alcohol or spirits of any kind other than the brand now being produced, due to the fact that when we once begin to produce spirits, both high and low proof, our vintners will be in a position to manufacture whisky that will compete with the Whisky Trust or high-proof alcohol that will compete with the Alcohol Trust, particularly in this Pacific coast area, thus causing them plenty of competition.

The spirits so produced will be grain spirits and that type is superior to that manufactured from molasses, or so-called blackstrap, as our stills are so constructed that we can fractionate spirits of any proof ranging from 120 to 100.

Hence, when the present conflict is over, and having confiscated our stills that source of competition has been eliminated and their usual business operation has been in no way affected, and they would never know there had been a war. Also the distilling units removed from California would have been subjected to hard usage, and a controversy would arise as to what extent would the California vintners be reimbursed for the stills so willingly taken from them.

In the foregoing paragraphs I have tried to give you a thorough résumé of my views and the problems confronting us should any attempt be made to confiscate the distilling units from this territory for their own personal gain when we have an abundance of materials in our own backyards to take care of any demands for spirits that may be made upon us by our Government.

Yours very truly,

THE OSCAR KRENS COPPER & BRASS WORKS, INC.,
OSCAR R. KRENS, *President*.

The CHAIRMAN. Without objection, we will stand adjourned, subject to the call of the Chair.

(Whereupon, at 11:30 a. m., the committee stood adjourned, subject to the call of the Chair.)

SMALL BUSINESS IN THE UNITED STATES

THURSDAY, JULY 9, 1942

SELECT COMMITTEE TO CONDUCT A STUDY AND
INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM IN
ITS RELATION TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.

DEVELOP PLANS TO AID THE LARGE NUMBER OF MANUFACTURERS THAT
CANNOT BE GIVEN WAR CONTRACTS FOR ESSENTIAL CIVILIAN PRODUCTION
AND ARE FORCED TO CLOSE BECAUSE OF THE WAR EFFORT

The select committee met, pursuant to notice, at 10:30 a. m., in room 1301 New House of Representatives Office Building, Hon. Wright Patman (Texas), chairman, presiding.

Present: Representatives Patman (Texas), chairman, Alfred L. Bulwinkle (North Carolina), William J. Fitzgerald (Connecticut), and Charles A. Halleck (Indiana).

The CHAIRMAN. Mr. Reed, we asked you to come here this morning to give us the benefit of your views on assisting those small manufacturers that will be unable to get assistance through acts that have been passed by Congress intended to relieve or assist small business.

I refer, in particular, to the Smaller War Plants Corporation Act which will doubtless help a large number of small businesses, but will not be sufficient to help all small businesses.

You pointed out recently in a statement you made or a public address that you delivered that about, I believe, 28,000 manufacturing concerns will probably have to close their doors in the near future because they will be unable to convert to war production or essential civilian production.

If you will give us your views on that, we will appreciate it very much, Mr. Reed. First, give your name and your title to the stenographer.

Mr. REED. My name is Philip D. Reed. In private life I am chairman of the board of General Electric Co. I am with the War Production Board.

I have a prepared statement which perhaps I might save time by reading, and I will be glad to answer any questions that you care to ask me.

The CHAIRMAN. All right, if you desire.

Mr. REED. In appearing at the invitation of the committee, I wish to speak as a private citizen expressing my own private views, rather than as an official of the War Production Board.

In private life my business career has been associated with a large corporation, the General Electric Co., which is one of the symbols of what is more commonly termed "big business." The attitude of the American people and the Congress toward the survival of the so-called

small business during and after this great World War will be determined by a composite of views from many diverse groups.

The consumer, the laborer, the professional man, and scholar must be heard; and, of course, big business will have its voice.

Without assuming to speak for big business, but as one qualified to express a point of view on your problem as it relates to big business, let me say unequivocally that, in my opinion, small business must be preserved if the American system of free enterprise is to survive the challenge of totalitarian government.

Some individuals may feel that this attitude, on the part of big business is not sincere. They may believe that big businessmen would like nothing better than to see their smaller competitors wiped out as casualties of war.

I cannot deny that self-interest is the principal motive that colors all human endeavor and belief. But the true and intelligent self-interest of the so-called big businessman should lead him to give every encouragement to the public and private action that may be necessary to save small business. Why? Because, first, if small business goes, big business does not have any future except to become the economic arm of a totalitarian state such as is the case in Germany and Italy today. Because, second, out of the flexibility, the vigor, and the competition afforded by small business comes the constant spark that has made free American enterprise one of the great progressive forces in the struggle of man for mastery of the physical universe.

Upon this analysis of the problem of small business and the war, which I believe to be the only tenable one, I have no hesitation in saying that enlightened self-interest should produce the heartiest support from big business to any sound and reasonable public measure designed to serve and preserve small business enterprise from the potential destruction that a total war effort engenders in many instances.

Hence, I appreciate the opportunity to appear before this committee and explore in a preliminary way the possibilities for such public measures.

The record you gentlemen have made sufficiently bespeaks your concern and sympathy with the problem of small business in the war effort. Therefore, I feel that it is not incumbent upon me to attempt to make a brief for the public policy of aiding small business to survive. I shall get right to the point of discussing ways and means of accomplishing our common objective.

I should like to limit the area of my discussion. First, as to the principle.

I am not here to discuss or debate the wisdom of a public policy that attempts to save harmless from damage all citizens who suffer as a result of war. That is a broad and complex question which is not decisive of the problem to which I will address my remarks; namely, whether or not the small manufacturing business shall be afforded some minimum subsistence to enable it to survive a period of idleness enforced by the necessities of war. This more limited issue involves the public interest in preserving an essential segment of our industrial productive organization as an asset for the post-war world. It is to be distinguished from the private interest in seeking

financial compensation for damage individually sustained as a result of war.

The second limitation upon my discussion flows from the first; namely, that the subject is the small manufacturer as distinct from the small wholesaler and retailer.

In addition to the 181,000 manufacturing establishments, American business includes approximately 200,000 wholesale enterprises, 1,770,000 retail enterprises, and 646,000 service enterprises.

Many of these wholesale, retail, and service establishments may be forced out of operation as a result of the war. Whether the public interest requires that assistance be given to some of these businesses in order that they will be available after the war, I do not venture an opinion. I should prefer that the committee seek testimony other than my own as to this area of the small business problem. Again, it is the case of the small manufacturer, the producer, the heart of our productive economy, that I wish to consider.

Finally, that group of small manufacturers who will be injured by the impact of the war will not, of course, suffer equally. The interruption of their business will vary from immediate and absolute shut-down to curtailment which may or may not be of such extent as to make profitable operation impossible.

For the purpose of emphasizing what seems to me to be the central, though by no means the only, problem, I shall direct my discussion to the basis, propriety, and form of relief that might be provided for those manufacturers who must shut down completely and thus face the problem of forced dissolution, if their financial reserves do not enable them to cover maintenance costs and fixed charges during a period of enforced idleness.

How does this problem arise and why is it a concern of this committee?

Inevitably, fighting a total war, in which the United States has pledged itself to be the arsenal of democracy, means radical changes in our everyday lives and in the organization of American business.

It is important to all of us that in making these changes we do so in a way that does not permanently distort our economic scheme of things or permanently sacrifice the elements of the way of life we are fighting for.

One of the most serious and disturbing conditions produced by the war production program is, paradoxically enough, the existence in many communities of idle plants and machinery. This is because the War Production Board, in order to release plants and equipment for war work and to conserve critical materials, has issued several hundred orders which have had the effect of curtailing or completely prohibiting the production of literally thousands of peacetime products.

The full impact of these orders has not yet been felt. War contracts, direct and indirect, are being sought by manufacturers on every hand and many companies have succeeded in booking enough work to keep them going at full capacity. Other companies, whose facilities are reasonably well adapted to war production but who have not succeeded in obtaining war contracts, will shortly be assisted in doing so through the provisions of the Murray-Patman bill, to which I will refer more specifically a little later on. Still

other companies—and it is recognized that there are many thousands in this category—have manufacturing facilities which are unneeded for or unsuited to war or essential civilian production and yet cannot be spared critical materials to maintain nonessential production even at a curtailed rate. In other words, they are out for the duration.

A great portion of the general public is probably under the impression that the problem of the small manufacturers and the war effort will be solved through the Murray-Patman bill.

This is a misapprehension which should be dispelled. It is true that the Murray-Patman bill will bring a larger number of so-called small manufacturers into war production. But there is a limiting factor, contemplated by the bill itself, upon that process. For the bill was intended as an aid to war production and does not contemplate that the Chairman of the War Production Board will certify as a competent contractor a small manufacturer whose facilities are not adapted to the war effort or which cannot be converted for such production without expenditure of significant amounts of critical materials for plant or machinery.

Thus, the Murray-Patman bill covers part, but not all, of the problem. It obviously leaves for further consideration the problem of the small manufacturer whose facilities are not suited to war production and who cannot obtain materials for nonessential civilian production. This type of company faces extinction unless something is done, and done quickly.

The issue of public policy is inescapably presented by these circumstances. Inaction involves as much of choice as action. The choice is either to provide funds on some loan or grant basis, or to let these manufacturing enterprises go through bankruptcy and dissolution with their physical properties dissipated and separated from the owners and managers who have operated them.

A reversal of the War Production Board policy that prohibits the diversion of critical materials to the nonessential production that might be continued in these plants is unthinkable. Such a diversion, even if indulged on a temporary basis, might prove fatal. The solution to the problem, if it is to be treated, lies elsewhere.

The absence in the United States of any method or device, or even policy, for treating the rapidly growing number of small plant casualties on the industrial front has been a cause of great concern to those of us who are confronted by that problem every day.

As you know, there is no escape from the necessity of issuing curtailment and stop production orders if the victory program is to be met. We have attempted, however, to analyze the problem, dig out such facts as were available, make them known, and stimulate questions.

What are the two greatest industrial powers, other than the United States who are engaged in this war, doing about their problem of preserving the skeleton framework of normal productive industrial organization?

Great Britain has encouraged all companies in specified industries to combine on some basis by which war or essential civilian production is concentrated in a limited number of so-called nucleus firms which, in turn, pay to the closed companies small sums sufficient to defray the cost of plant maintenance.

This treatment by and through industry cooperation, and without Government assistance may be feasible in those industries in which a considerable degree of continuing production is to be permitted. In those industries, however, where production is completely cut off or drastically curtailed, and there are many, no such solution is tenable.

Even in the industries where production is continued but curtailed, the margin between cost and selling price is usually insufficient to cover the cost of maintenance of the shut down manufacturers. Furthermore, this type of solution is much more practical in Great Britain where for many years manufacturers of a given industry have been operating under production quotas fixed by their cartels or associations.

Even in Germany, the Government is said to have adopted a general policy for the compensation of closed establishments in cases where aid is not given under voluntary assistance programs of industry groups under plans similar to those of the British.

This one fact seems to indicate that the survival of small manufacturing organizations and plants is, from the German point of view at least, economically desirable and is not wholly a matter of sentiment. For, as we all know, Germany is already highly regimented and has little reason for preserving small productive businesses as a foundation of competitive enterprise.

Some time ago when the full proportions of our curtailment program became manifest in the form of a long and extensive series of stop production orders, I attempted to secure an estimate of the anticipated impact of these orders upon manufacturing concerns.

Admittedly, the figures were rough, and should be treated as estimates or, perhaps, even informed guesses as to what will happen. So qualified, this preliminary estimate of the Bureau of Industry Branches indicates that of 181,000 manufacturing establishments, approximately 24,000 whose sales in 1939 amounted to \$4,000,000,000, will be forced to shut down before October 1.

As the situation changes, and the contracting effect of shortages of materials, labor, and transportation facilities becomes increasingly apparent, even these estimates must be changed. Accurate statistical information as to the effect of the war program on small manufacturing businesses may show the problem to be of lesser or greater magnitude.

The important fact is that the problem is substantial; that it appears so now; that we cannot wait to count precisely the bodies before considering whether or not something should be done about the disease.

I do not know and would find it difficult to estimate what percentage of these 24,000 industrial concerns have sufficient financial resources to weather a prolonged period of idleness. I do not believe that liquidation or bankruptcy would be the rule rather than the exception before the war is ended.

It would be quite desirable for some public or private group to attempt a more painstaking and detailed examination of the statistics that give the problem substance.

The extent of the dislocation, the general characteristics of the concerns affected, their size, their average span of life, the scope of their activities, their location in a large urban area or a small com-

munity, the age and competency of the management and work force, the tax aspects, the insurance aspects—all these topics need considerably more attention than they have as yet received.

But with the information which is presently available, I believe some opinions and positions can be taken:

Early in June, in a commencement address before the Polytechnic Institute of Brooklyn, I suggested, by way of example, the creation of a Government agency authorized to do the following:

(1) To defray, during the period of enforced shut-down the minimum fixed charges and maintenance costs of those plants which have been or will be closed down as a result of War Production Board orders, provided such plants are not needed for war or essential civilian production.

(2) To make loans at favorable interest rates to those plants which, although not completely closed down as a result of War Production Board orders, are unable to operate at a profitable level by reason of such orders or shortages of materials, and are in need of and unable to obtain financial assistance.

(3) To make loans at favorable rates, and up to the fair value of frozen inventories, to those plants which have not unreasonable inventories of fully or semifabricated parts that cannot be finished and assembled into completed products without additional amounts of critical raw materials, and which are in need of and unable to obtain financial assistance.

As I stated at that time, these suggestions were made for the purpose of stimulating consideration of this subject and not as a complete and definite program.

I repeat them here simply for the record and without wishing to imply that I consider these suggestions the only or even perhaps the most desirable steps to be taken.

Surely, any relief to be granted should be conditioned in a number of ways, and many other alternatives should be carefully examined.

For example, it would seem to be a sound principle to require a manufacturer who is forced to shut down to demonstrate his desire and his fitness to be kept alive for the duration by requiring him to assume some part of the fixed charges and maintenance costs as a condition precedent to the Government assuming the balance.

The manufacturer should, of course, be required to shut down tight and reduce all maintenance and fixed charges to a minimum.

It has been suggested by others that mortgagees or landlords should be encouraged or compelled to participate in some program of accepting nonnegotiable war bonds at 2 percent interest in lieu of further payments. There would seem to be a certain amount of equity and appeal in this suggestion, but I have not explored its constitutional and practicable validity.

At all events, the business recipient's costs should be reduced to the bare bones. The recipient should be required to use current assets to pay off current obligations and generally to clear the decks of debt insofar as he is able.

He should likewise be required to make available for sale or rent any movable and usable property, either by way of rental to the Smaller War Plants Corporation or to some other manufacturer who could use it in lieu of new equipment. The money received from such rental

or sale might be placed in a separate fund for use in reequipping the plant when it is reopened.

These conditions having been followed, the shut-down business should have its application for assistance considered upon a budget covering minimum maintenance charges, fixed obligations, and rent—adjusted to the lowest limit—taxes, insurance, expense of watchman and repairs necessary under stand-by conditions.

These applications should be studied on a case basis and standards of eligibility should be established which, to the greatest practicable extent, will weed out and exclude, on the one hand, concerns which are clearly and demonstrably incompetent as a peacetime operation and, on the other hand, concerns which do not, in fact, require financial aid to weather the storm.

In making these suggestions, I wish to keep clear the distinction between the policy behind it and the policy that would give every private individual a right to relief from the Government for any damage, direct or indirect, suffered because of war.

To embark upon a hitherto unaccepted theory that it is the responsibility of the Government to save harmless all of its citizens from the hardships of war, would be to invite an open season on the public purse and credit that would be unsound and undesirable.

The impact of war upon human life and property is incalculable. Thus far, this country and Great Britain have only attempted to assist in providing protection from physical damage that may result from the physical attacks of foreign foes. We have not as yet adopted a broad principle of granting relief for distress that results from war.

For example, it is not suggested that a lawyer or a doctor whose professional practice is interrupted because of the war has some right to receive financial assistance because of the damage his practice may indirectly suffer.

Young men are interrupted in the course of their education, their business careers, and removed from favorable economic positions to enter into the armed service. These examples could be multiplied. The incidental losses on any principle of relief of ordinary distress, hence, are incalculable.

The validity of the proposal concerning small manufacturing businesses must stand or fall upon a decision as to whether or not that case can be realistically distinguished from the other types of distress mentioned.

The basis of such a distinction, as I have indicated, is that our society has a very important stake in preserving the productive and creative enterprises these businesses represent so that they may be in a physical and financial position to function at the cessation of hostilities.

If it were simply a question of preserving small business in order to save its capacity to produce, the question would, in my judgment, be a far closer one. A much more persuasive argument for the preservation of small business lies in the fact that each concern represents an independent competitive business nucleus eternally searching for better, more efficient products and for ways of distributing and selling them at lower prices.

We just cannot have too many minds and independent organizations exploring this field, for therein lies the success or failure of

any program to maintain our production and our standard of living at a high level after the war.

The future of thousands of small communities is dependent upon the existence of these private plants. If closed and dismembered now, the economic future of these communities and the character of the industry of which they are a part, is left hanging in the balance.

It is my belief that if they cannot be preserved during the war and revived when it is over, a tremendous and imponderable change will occur in the structure of the social and economic life of America.

These manufacturing enterprises are the very warp and woof of our system. Surely it is not the wish of this great Nation at war, deliberately to decide upon new and different patterns for our post-war political, social, or economic life. Let us not, then, adopt such patterns by default through ignorance, lack of understanding, or inaction.

What would be the order of magnitude of the actual cost of this conservation project?

If the 24,000 companies previously mentioned, doing an annual business of \$4,000,000,000, were kept alive through Government funds to cover fixed charges, and if such charges average 5 percent of the annual business of these companies, the annual outlay would be \$200,000,000. It would vary up or down depending upon the eligibles below or above the 24,000 estimate.

In relation to current war production expenditures, a sum of this magnitude would seem to be small, indeed, as a price of preserving this substantial group of the country's small productive enterprises until the war production job is finished and they can resume their important operations.

Such a policy would not commit the Nation to the more questionable principles of reimbursement for war losses to which I have referred. It would only involve a realistic preservation of a national asset, physical, economic, and spiritual, which we will sorely need in the years of readjustment ahead.

That completes my prepared statement. I would be glad to answer any questions.

The CHAIRMAN. Would you contemplate an amendment to the so-called Murray-Patman Act to carry out your objectives as outlined in your prepared statement or do you contemplate an entirely new proposal?

Mr. REED. That is a question on which, Mr. Chairman, I think the judgment of you and your committee would be far better than my own.

It would seem to me, however, surely amendment to the existing Smaller War Plants Act would be one way of doing it, and I feel, I personally feel, that the administration of the existing bill, the Murray-Patman bill, and the subject matter that we are now discussing, if it becomes law, should certainly be in the hands of the same administrative group.

The CHAIRMAN. They are directly related, it occurs to me.

Will the personnel of that board be announced soon, do you think, the Smaller War Plants Corporation Board?

Mr. REED. Yes; I think so.

Mr. BULWINKLE. I was just thinking, as he was talking, I had on my mind the Reconstruction Finance Corporation for this purpose.

Mr. REED. The reason that I think it ought to be in one spot, wherever that spot is, is that obviously these companies are going to have to be examined and classified.

Either they are competent for war production or they aren't. That means that engineers or someone who knows facilities and productive capacities and all the other elements that go into a question of determining whether a given manufacturer, large or small, can be helpful in war production, has got to be done by engineers.

It means that you have got to have studies made and questionnaires filled out. If you have two separate agencies doing that, some companies are going to fall between. They are going to be borderline cases, and they will be certified as incompetent, perhaps, by one organization and certified as competent or eligible for relief by another. Therefore, that ought to be avoided and duplication should, it seems to me, be made unnecessary by administering it at one point.

The CHAIRMAN. I am impressed that they should be under one management for the same reason that it was decided to have the financing under the Smaller War Plants Corporation under the War Production Board rather than the Reconstruction Finance Corporation.

Heretofore a small contractor could get a contract if he could get the money and he could get the money if he could get a contract, but, of course, he couldn't get the two together, and one of the objects of that act was to place everything into the hands of one group so that they could classify them, they could evaluate their services, they could do everything necessary to determine the extent of their ability and then after declared to be competent, they could then let them actually have the money to carry it out, and I am impressed, Major, that for that very reason we should consider having it under this particular group because I am afraid there would be duplication of service otherwise. However, that is a matter to be explored.

Mr. REED. It might be pointed out that the group that we are speaking of here, the 24,000, it is already assumed and has been determined that they can make no contribution to the war job, and that is why we are worried about them. That being so, they can have no real place in the War Production Board because the War Production Board is for war production, and we have already found that they cannot contribute to it, and so you can argue, and I think with considerable weight, that perhaps the whole thing should be outside the War Production Board area. It is produced by war but this part of it has no part, is no help, to the War Production Board.

On the other hand, the Smaller War Plants Corporation contemplates to some extent an actual aid to the war-production program.

The CHAIRMAN. Your contract distribution offices, which, I presume, will soon become agencies of the Smaller War Plants Corporation, have all the information that is needed about these 24,000 smaller manufacturers without any further investigation, I assume?

Mr. REED. I don't think that is so. I would be surprised if it were. In other words, I don't have a list, and no one that I know of has a list of these 24,000 companies. That was a rough estimate.

The CHAIRMAN. I presume that these 24,000 would be trying to convert into some sort of war work or into the production of essential civilian supplies. That being true, they would necessarily have a record of them in these contract-distribution offices?

Mr. REED. Yes.

The CHAIRMAN. They, at least, have part of the information?

Mr. REED. Yes; I think they would have considerable information.

The CHAIRMAN. Your final proposal here is very interesting to me about it costing probably \$200,000,000. That would necessarily include some management from some department here in Washington to supervise these different manufacturing concerns to make sure that the expenses are kept down to the minimum, and certain requirements are met so as to make it just as little expense on the taxpayer as possible. That would necessarily contemplate some governmental supervision for that purpose, would it not, Mr. Reed?

Mr. REED. I think it would contemplate careful scrutiny, in the first instance, of the application in order to test and check on their eligibility. Once the determination has been made as to whether they do or do not conform, whether the items of cost have been reduced to the irreducible point, then it seems to me no further supervision would be required.

The CHAIRMAN. Does this \$200,000,000 include any nonnegotiable bonds bearing 2 percent interest that you mentioned in the preceding paragraph?

Mr. REED. That \$200,000,000 is simply 5 percent of \$4,000,000,000. Four billions of dollars is the annual volume of the business of those companies, and if we assume that the stand-by expense would not exceed 5 percent, we multiply and come out with this \$200,000,000. It is so rough as to be of questionable value.

The CHAIRMAN. Well, of course, we must have some estimate.

Mr. REED. That is right.

The CHAIRMAN. And I presume that is about as safe an estimate as we could arrive at?

Mr. REED. Yes.

The CHAIRMAN. That being true, the \$200,000,000 would include the 2 percent nonnegotiable bonds. In other words, suppose a manufacturing concern has a lease and they are paying \$100,000 a year. Well, if the owner of that property agrees to take nonnegotiable bonds at 2 percent, that would solve that part of it?

Mr. REED. That is right. And to the extent that the applicant was required to assume some part of it himself, the fund—the amount required—would be reduced. To the extent that loans are substituted for outright grants again—

The CHAIRMAN. Carried to its last analysis, I can see not being out any actual money except to people for actual labor and services that must be performed that would be unable to accept nonnegotiable bonds. Therefore, a large amount of money should not be necessary, should it, Mr. Reed?

Mr. REED. Well, that depends on how you work it out. I don't think it can be done without considerable expense. It doesn't seem to me likely that it can be done. Of course, issuance of bonds or—

Mr. FITZGERALD. That 5 percent of that \$4,000,000,000, that is for management. What provision, if any, is made for the employees that will be thrown out of employment?

Mr. REED. It is contemplated that there will be ample employment in war production industries for everyone and one of the reasons—perhaps important reasons—why these companies will be forced down is that their labor will be required in the community but in other plants.

Mr. FITZGERALD. But you know, Mr. Reed, as a practical man, that all labor will not be employed and cannot be employed, that labor will have to be shifted from one community to another.

Mr. REED. That is right.

Mr. FITZGERALD. Homes will be needed; old people that today are employed in a great many of these small concerns won't be able to obtain employment with these large firms. There are a great many today that are not employed in this country that were employed, that still can't be employed, so with this provision that you are recommending in your report here, it only provides for the management, but there is no provision there for the old—

Mr. REED. It isn't only the management. It includes the stockholders and the owners of the business, whoever they may be.

Mr. FITZGERALD. Well, we will say it is the business that is provided for.

Mr. REED. The suggestion makes no provision for unemployment relief for the employees of these small companies.

The CHAIRMAN. Nor the administration and so forth?

Mr. REED. Nor the administration and so forth. No salary.

Mr. FITZGERALD. But the business.

Mr. HALLECK. It might well be that the preservation of the business in such a state of affairs that they can pick up after the war is over would be highly desirable from the standpoint of the workingman as well as the standpoint of the management.

Mr. FITZGERALD. I believe that is the intention; if we are going to preserve small business after the war, we have got to prepare for it. But I don't believe with the War Production Board that they have exploited all of these small businessmen yet to put them into production in the war effort. I know from practical experience that there are several small businesses that are ready to go in and have been begging to go in for this past year and cannot go into it, and have been to these War Production Boards and these offices that we have throughout the States and have been there dozens of times.

As a matter of fact, from the viewpoint of a practical man and of a mechanic myself, I believe that they could be used in the war effort, but it has been impossible for them to receive any orders at all.

I don't know whether the Smaller War Plants Corporation is going to be able to help them or not, but I think it is time to get going and use up these facilities that we have got around, not only men but machinery.

I know up in my State, up in Connecticut alone, which is a manufacturing State, that there are many manufacturers up there that are not working, using their machinery up to capacity, or anywhere near capacity.

Mr. HALLECK. Of course, Mr. Reed, we are all tremendously interested in the problem of the small manufacturer. As I understand your suggestion here today, it simply amounts to a subsidy out of the Federal Treasury to keep these plants in a position so they could pick up after the war is over. That is essentially what it is.

Mr. REED. Yes; that is right.

Mr. HALLECK. Here is what bothers me. You have attempted to distinguish it not on any altruistic basis at all, but rather on the matter of the value involved to the public interest in having those plants in shape where they could get going again, but isn't the retail outlet, the retail outlets, generally, over the country just as important in our scheme of production and distribution under a system of private enterprise as the productive capacity?

Mr. REED. Well, that is a difficult question. It is one on which people's views will differ; I would rather not compare them or even discuss it. I think there are differences of degree, perhaps, and I recognize full well that if this is done or seriously contemplated for one group, manufacturing group, of course, the pressure to do it for others will be immense, and it becomes very difficult to distinguish because it is a matter of degree, the value to the economy. I personally feel that the productive units, the manufacturing units, wherein lie the embryo of new invention, of new and cheaper products, of all of these things that have made this country what it is today, should be saved.

Now, how far we should go in dealing with the distribution end of it, I just am not prepared to make a statement now.

Mr. HALLECK. It has always been my view that depression with consequent unemployment in this country has been a result of the failure of the process of distribution rather than the process of production which isn't to minimize the fact that after the war is over and looking ahead there is a tremendous job in reconverting the productive capacity of the country to the creation of consumer goods. But I am not so sure but what if we let our distribution system go to pieces, that we may find out that we will be getting our productive capacity going much quicker than we will our process of distribution.

Mr. REED. I think your point is good.

Mr. HALLECK. And so, being realistic about it, if we undertake such a program as this, I am afraid we would be beset with demands from people in positions against whom we would find it very difficult to discriminate, and against whom we would find it difficult to find any different basis for treatment or consideration.

Mr. REED. As I say, I personally think there is a difference. The tools and facilities of distribution are different than of manufacture.

Mr. HALLECK. The reason for the preferential treatment that would be accorded manufacturing industries as distinguished from other operations in our economy is this matter of the value to the economy?

Mr. REED. That is right. And I went farther really. We start with these obvious cases of the doctor or the lawyer and the damage that he is suffering to his asset, which is his practice, in the case of a doctor or a lawyer, being irreparably, perhaps, injured, but no one ever thinks of or should think of compensating him, in my judgment, for that.

Mr. HALLECK. When you contrast the various favorable situations of the automobile manufacturing establishments with that of the dealer, it is very obvious that the dealer is on the small end of it because the plants have been converted to war work, and they are busy.

Mr. REED. Generally speaking.

Mr. HALLECK. They are going to make some money.

Mr. REED. I think, Mr. Halleck, generally speaking, you will find that the retail or wholesale establishment can liquidate itself, close up, and then reopen later with much less of a wrench financially, and its business can be liquidated in a way that the average manufacturing plant cannot. They have some fixed assets.

Mr. HALLECK. Some of them have some terrific leases.

Mr. REED. I know they do. Don't mistake me. I don't underestimate the problem.

Mr. HALLECK. It is a problem, and I am glad to see you and other people pay some attention to it, because we, at least, might be making some approach to its solution.

The CHAIRMAN. The owners of real estate and real property, it occurs to me, should be willing to make a little sacrifice because they do not make any direct contribution toward paying the cost of this war. You take about \$300,000,000,000 worth of real property in our country, and absolutely nothing is paid into the war fund except where an actual profit is made on the real estate, so, after all, the real estate itself makes no direct contribution toward paying the cost of defending that real estate in prosecuting this war.

Mr. HALLECK. You can't tell farmers that.

Mr. FITZGERALD. You can't tell mine that, either, that with the taxes raised and other things, that they are not contributing.

The CHAIRMAN. Well, I reassert that one can own a million dollars worth of real property, whether it is in farm land or anything else, and if he does not make any profit on it, he pays no income tax and pays no tax to the fund for the prosecution of this war.

Mr. HALLECK. What is it worth if it doesn't make a profit?

The CHAIRMAN. I am just telling you it makes no direct contribution.

Mr. REED. You mean to the Federal Government.

The CHAIRMAN. That is right, to the Federal Government. Of course, it makes a contribution to the State, but for an entirely different purpose. You know I specified for paying the cost of the war.

Mr. REED. I know.

The CHAIRMAN. I have a bill, I believe it is H. R. 6760. It is pending before the Judiciary Committee. It deals with leases, having in mind where an automobile dealer has a show window he is paying a couple of hundred dollars a month for. Well, his business is closed up and he is obligated to pay that for a number of years. The question is: Who should make the greatest sacrifice? Should the automobile dealer be compelled to make all the sacrifice and continue to pay \$200 a month or should that owner make a sacrifice along with him? And that being true, this bill contemplates that the court, either State or Federal court, will pass upon the equities of the case and determine what each one should sacrifice.

Do you think that is a step in the right direction, Mr. Reed?

Mr. REED. That is a new function for a court, it seems to me. The problem is clear. Is that the so-called orderly liquidation bill?

The CHAIRMAN. No; I don't think it is.

Mr. REED. I have heard that term applied to some pending legislation. I forget.

The CHAIRMAN. I don't think it has been applied to this particular bill. This will apply to anything involving rationed goods that cannot be easily or quickly disposed of, having in mind particularly automobiles and tires and so on.

Mr. REED. This task of trying to make the load fall evenly is one, I suppose, we shall never get done.

The CHAIRMAN. That is like exact justice. We have to do the best we can.

Mr. REED. That is right.

The CHAIRMAN. In this plan of yours, you expect the plant to be frozen exactly where it is, and kept up in good condition, properly guarded and looked after?

Mr. REED. And the facilities, if there happen to be a particular tool that could be used by anyone else in the area, that would be available at all times for rental or purchase.

The CHAIRMAN. They are available under existing law, aren't they?

Mr. REED. Yes; they are.

The CHAIRMAN. And you would have no big salaries of officers, directors, or administration?

Mr. REED. Absolutely no salaries at all except maybe a watchman or something of that sort.

The CHAIRMAN. People who are watchmen would be the type of people who wouldn't ordinarily engage in war work. A watchman wouldn't have to be as well qualified physically as one engaged in war work, and we might be able to use a large number of people that wouldn't fit into the war program. Do you intent that all social security benefits be frozen and kept intact as they are and continued to accumulate?

Mr. REED. Of employees?

The CHAIRMAN. Of employees.

Mr. REED. They would be automatically, wouldn't they? A man who is out of a job or goes into the Army, it doesn't affect his status.

The CHAIRMAN. I presume they would. Don't they have some separate system where they have social security benefits over a period of years before the 1935 law, could they not continue on as they have been without going under the Federal Social Security Act?

Mr. REED. I am not sure that I understand that question.

The CHAIRMAN. Did not some concerns have their own private pension systems?

Mr. REED. Oh, yes.

The CHAIRMAN. And are they under the Federal Social Security Act, or are they outside of it?

Mr. REED. The plants themselves are entirely separate from them. Many of them have been modified to dovetail with them or fit together.

The CHAIRMAN. But in your plan, I presume that you would expect that they would be frozen, even though it were a private plan, frozen just where it is, and the employees' funds protected and taken care of?

Mr. REED. I think that would be a problem for the companies themselves. They will vary tremendously. I think you will find few of these companies we are speaking of, the smaller companies that have their own individual pension plans. Almost without exception they are relying on the social-security law in providing for their people and making the pay-roll deductions. I don't think you have a problem at all there.

The CHAIRMAN. Let us assume that there is a plant that cannot be converted, and try to think this thing through. There will be no officers' salaries, the tax will have to be paid.

Mr. REED. Yes; property taxes.

The CHAIRMAN. Property taxes?

Mr. REED. Corporate taxes, keep your corporate franchise alive, and income taxes up to the period prior to the time you shut down.

The CHAIRMAN. But that could be done with negotiable bonds, some of them, I presume.

Mr. REED. I think so.

The CHAIRMAN. And eliminate the necessity of paying out actual cash. There would be taxes of different kinds. The amount of labor would be small. There is no reason why the amount should be large?

Mr. REED. No.

Mr. BULWINKLE. Well, just a minute. You take any manufacturer's plant, Mr. Patman, and you let it stand, you are going to have to have a sufficient number of men in there constantly going over that machinery and oiling it, or your machinery will depreciate; isn't that right?

Mr. REED. I don't think you would need many people. We are talking about small plants, Major.

Mr. BULWINKLE. Well, in a small plant. I am assuming a proposition with some two-to-three-hundred-thousand-dollar capital in a manufacturing plant, you are going to have to have more of a pay roll than you think when you get through with it. You are going to have to have at least three watchmen.

The CHAIRMAN. Of course, there would be no dividends to be paid. Everything would be frozen just where it is.

Mr. REED. Yes.

Mr. BULWINKLE. You are going to have to have a man there as office manager for this help that you have. Your fixed charges on one of those plants will amount to a little bit more than 5 percent, I imagine, one of those smaller plants, anyhow. Is that a question which we would have to find out?

Mr. REED. Exactly.

Mr. BULWINKLE. You can't estimate it right now?

Mr. REED. Exactly.

The CHAIRMAN. Any other questions, Major?

Mr. BULWINKLE. In your fixed charges, you go on with these things, your taxes and all like that, and, of course, that man may have his mortgage or deed of trust or liability, and your interest would have to be arranged.

Mr. REED. You would have to adjust that in some way. If he registered the property, you would have the rental proposition to deal with with some landlord.

Mr. BULWINKLE. So when you get into it you are going to find it more complicated than you think.

The CHAIRMAN. I know it is a complicated problem.

Mr. BULWINKLE. I felt this way: If, assuming, for the sake of argument, that we brought out some kind of bill, probably the War Production Board investigating each of these can certify whether or not that man could go into Government contracts or into essential civilian contracts.

Mr. REED. That is the first step.

Mr. BULWINKLE. That is the first step. And then turn that over to the Reconstruction Finance Corporation for the purpose of finding upon their credit whether under all the circumstances he would be entitled to it.

Mr. REED. That is right.

The CHAIRMAN. There would be no duplication of effort?

Mr. REED. No; there would be no duplication of effort. The technical studies are done by one group, it seems to me.

Mr. BULWINKLE. The technical studies, but the other is purely a financial thing.

The CHAIRMAN. And as Mr. Reed suggested awhile ago, when they determine that they cannot be converted, the War Production Board really is not the right place for them, because the War Production Board is for the purpose of prosecuting the war.

Mr. REED. That is right.

Mr. BULWINKLE. That is the reason I was wanting to get it out of it and not cumber you up with having 20,000 or 30,000 or 40,000 corporations on your hands down there to look after to see that they were making the interest and doing this, that, and the other.

Mr. REED. That is right. On this question, Mr. Fitzgerald, that you mentioned, of labor. As you know, the Government has the United States Employment Service offices all over the country who are undertaking to list and to categorize all unemployed people so they can be used for war purposes.

Now, it might be possible in connection with what we have been talking about here to provide in the statute itself, if there were one, that any company that was shut down and assisted under this bill, the employees of that company would be given preferred status, if you like, at the top of the list with the United States Employment Service, or something of that sort, whereby they could be especially dealt with.

Mr. FITZGERALD. How could they do that, Mr. Reed? They don't employ the help. All they do is recommend it. The firms that they go to are the ones that are going to say whether they are going to hire them or whether they are not going to hire them.

Mr. BULWINKLE. They could do like they did in Italy in the N. R. A. that they had. Did you ever know how that worked?

Mr. REED. No.

Mr. BULWINKLE. For instance, here is a plant that shut down and here is another plant that needs so many employees. Those employees were transferred to the plant.

Mr. FITZGERALD. We don't want them to do that in America; not yet. If might be necessary later on to do it.

Mr. BULWINKLE. Then, on the other hand—just a minute. I am talking about this. You are wanting something done for the people without work. This way it would give them work. They wouldn't have to go, but they could have their opportunity of going if they wish, and that is all there is to it.

Mr. FITZGERALD. That is different: Giving them an opportunity if they wanted to go there, but I wouldn't want to see anything in force in this country that would force a man to go from one job to another.

Mr. BULWINKLE. Nobody had intended that at all. If you had waited until I got through, you would have found out what it was.

Mr. FITZGERALD. I am not yet convinced that the War Production Board has used all of the small business in this country in the war production effort.

Mr. REED. It hasn't, and it won't.

Mr. FITZGERALD. Until it has, I wouldn't want to see consideration given to this plan. Because we would put it in somebody's power to say: "You go out of business, and we will pay a certain amount of money until you close down."

I want to see every man employed in this country in every industry, no matter how large or small, employed in the war effort, and I don't believe we have exploited that end of it yet.

Mr. REED. So do we all.

Mr. FITZGERALD. I think there are a great many small businessmen in this country that can be employed. I want to ask you another question. It was testified before this committee several months ago that less than 2 percent of the raw material would keep the majority of these small businessmen in civilian operation. Has that figure changed, do you know? Would you say it is increased?

Mr. REED. I don't know where that figure came from.

The CHAIRMAN. Mr. Odium suggested it.

Mr. FITZGERALD. Mr. Odium.

Mr. REED. I remember it. On what basis it was employed is not clear. My own view of it is that the one thing we can't, as a Nation, afford to waste is critical materials. As between dollars and critical materials, my vote is for dollars. The copper and steel and tungsten and these other metals, it seems to me, we can't afford to use for relief purposes if there is any other way around.

Mr. FITZGERALD. I was just asking to see if the figures changed.

The CHAIRMAN. Have you visited Britain lately?

Mr. REED. No, sir.

The CHAIRMAN. You studied their problems?

Mr. REED. We have been in close touch with what they are doing and how they have dealt with it.

The CHAIRMAN. Any other questions, gentlemen?

Mr. BULWINKLE. The loss of 2 percent of critical materials in war material might be the loss of a battle.

Mr. REED. Very easily.

Mr. BULWINKLE. And that is the first consideration always.

Mr. REED. That is right.

The CHAIRMAN. Tomorrow morning we will have a session at 10:30 o'clock.

(Whereupon, at 11:33 a. m., the hearing was recessed, to reconvene at 10:30 a. m., July 10, 1942.)

SMALL BUSINESS IN THE UNITED STATES

FRIDAY, JULY 10, 1948

SELECT COMMITTEE TO CONDUCT A STUDY AND INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM IN ITS RELATION TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.

The select committee met, pursuant to adjournment, at 10:30 a. m., in room 1301, New House Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman (Texas), chairman; and Bulwinkle (North Carolina).

The CHAIRMAN. Mr. Hines, please.

STATEMENT OF CHARLES F. HINES, WAR PRODUCTION COORDINATOR, CITY OF PROVIDENCE, R. I.

The CHAIRMAN. Mr. Hines, suppose you give your name and position to the reporter?

Mr. HINES. Yes, sir. I am Charles F. Hines, War Production Coordinator of Providence, R. I.

The CHAIRMAN. You know the subject matter that we are considering, Mr. Hines?

Mr. HINES. Yes, sir.

The CHAIRMAN. I have talked to you about it.

Mr. HINES. Yes, sir.

The CHAIRMAN. Have you a prepared statement?

Mr. HINES. I have prepared a short statement that might embody one or two ideas that we believe would be helpful to the work of the committee and Congress.

The CHAIRMAN. Would you like to read the statement?

Mr. HINES. I would be glad to, sir.

The CHAIRMAN. Before being interrogated by us?

Mr. HINES. Yes, sir.

The CHAIRMAN. All right; go right ahead.

Mr. HINES. A serious break-down of small industrial establishments in the Providence, R. I., area threatens because of the inability of these smaller concerns either to (1) obtain materials for their ordinary business or because (2) they cannot obtain sufficient replacement war subcontracts or (3) undertake them at the present time due to various causes.

All of these concerns desire to do war work. Many of them are temporarily handicapped because of the difficulties in obtaining sufficient war work of the kind that they will fit into or because of the delays inherent in converting their plant when the specific needs are not sharply defined.

It is the opinion of the business division of the Providence Civilian Defense Council that the bill providing \$150,000,000 to help small industries convert to war production should be broadened to assist those smaller concerns whose usefulness in war production will be delayed by causes beyond their control.

After considerable study of the matter, it is the considered opinion of the business division that everything reasonable should be done to maintain the status of these concerns for future usefulness in the successful prosecution of the war. It is our belief that, inasmuch as no one can now foretell how long the war will continue or what its demands on the industrial economy of the country may be, it would be extremely unwise to allow these smaller concerns to lose their identity and organized capacity for war work.

It seems certain that if the demands for war production should be suddenly increased in almost any direction, the Army, Navy, and Maritime Commission, as the principal ordering agencies in the Government, would be compelled to fall back on these smaller concerns for a great preponderance of the production required, because practically all of the large manufacturing concerns capable of war work are engaged to full capacity.

The business division recognizes the difficulty of giving assistance to these industrial concerns, because it is practically an impossibility to save every business concern in the country threatened with extinction. It is our belief that this assistance should be given only to those concerns that might be considered the reserve industrial force needed for war production.

We suggest the advisability of establishing a system whereby the W. P. B., Army, Navy, Maritime Commission, or other Federal procurement bodies be called upon to certify the potential usefulness of such concerns for war production as a condition precedent to the granting of any financial distress aid.

In this connection, to assist in such an operation and to perhaps provide a point for experiment, the business division of this Defense Council will be willing to establish a committee of thoroughly competent business executives in this area who could receive requests for such financial assistance from such concerns, thoroughly investigate their qualifications and fitness, and report to any fund distributing agency of the Government with authority to disburse such funds.

If the war continues beyond present expectations, the Government will certainly need the aid of these smaller concerns. Our principal recommendations at this hearing are to suggest broadening the powers of the bill to include those concerns that will be needed later on and to further suggest that the regulations and policies established for the disbursement of this fund be strictly established upon some such method as outlined above so that its expenditure will not duplicate already existing methods of financing and yet be of the utmost importance in winning the war.

That, sir, is the end of the prepared statement.

The CHAIRMAN. What official position did you say that you now hold, Mr. Hines?

Mr. HINES. I am the war production coordinator for the Providence, R. I., area.

The CHAIRMAN. You remain in Providence most of the time then, I presume?

Mr. HINES. Well, I am in Providence most of the time, but I am primarily contacting large war prime contractors and governmental departments, wherever we can bring work into the Providence area in large volume.

The CHAIRMAN. You have quite a few manufacturing concerns in that area, have you not?

Mr. HINES. Yes, sir. In that connection I would like to outline a little bit our Providence situation.

The CHAIRMAN. Is it typical of the New England area?

Mr. HINES. It is not quite typical, sir. It is perhaps a slightly aggravated average, if I might use that term.

The CHAIRMAN. Prior to your connection with the War Production Board, did you hold some position in Providence that enabled you to have constant contact with the smaller plants?

Mr. HINES. Yes, sir. I am executive vice president of the Providence Chamber of Commerce.

The CHAIRMAN. How long have you held that position?

Mr. HINES. I have been there a year, and before that I was with the National Association of Manufacturers in New York as public-relations director.

The CHAIRMAN. So you have had contacts with manufacturing concerns quite a long time?

Mr. HINES. Yes, sir; for many years.

The CHAIRMAN. Now, you made one statement there about someone in the War Production Board who certified the potential usefulness of these different concerns. Do you refer to just small business generally, or do you refer to the concerns that can be converted into war production, or to those that can be converted to the production of essential civil supplies, or do you refer to those, about 25,000, that cannot do anything in connection with either?

Mr. HINES. The question as to whether or not they can do something is a disputable one. Most all of these concerns may be said to start with certain nuclei. They have management, they have labor, they have their houses, they have at least that. They may need, in many cases, now machinery. They may need to retrain their help, but we have seen so many illustrations in the country of concerns making something for war production so remote from what their peacetime production was that it would be hard to say that any industrial concern could not be used in war production.

The CHAIRMAN. It is your belief that practically all of them—or do you say all of them can be used in one way or another in either war production work or in the production of essential civilian supplies?

Mr. HINES. I think that is a true statement.

The CHAIRMAN. You have, for instance, large concerns like Goodrich; the executives were called into Washington and just told to take certain contracts because they had people who were good managers; they had the engineering skill and ability, and they had the set-up where they could do almost anything. The reason I mention Goodrich, they were given a big job in my own county constructing a shell-loading plant, something that is remote from anything that the Goodrich company were ever engaged in.

Mr. HINES. Yes, sir.

The CHAIRMAN. But because they had these different things you mentioned, like management, and they had labor, and the different elements necessary for a successful business they were called upon to do this war work.

Mr. HINES. Yes, sir.

The CHAIRMAN. So you believe all of them can be used then?

Mr. HINES. I would not want to go quite so far as to say all of them, but I would say that all but a very few could be.

The CHAIRMAN. Well, those that cannot be used, do you have any plan to help them?

Mr. HINES. I have no specific remedy or suggestion in that connection, because our thoughts, of course, have always been in connection with war production. You speak of concerns that might not be used. Well, you could think in terms, perhaps, of a millinery concern that might be so remote that it would be very inadvisable to consider them.

The CHAIRMAN. A concern where the stock in trade is style?

Mr. HINES. Style?

The CHAIRMAN. Yes.

Mr. HINES. It would be perhaps wiser if they started from scratch.

The CHAIRMAN. Go ahead, Major Bulwinkle.

Mr. BULWINKLE. Let me ask you this: You spoke of the number of concerns in Rhode Island that could be converted. How many such businesses have you?

Mr. HINES. I am glad you brought that out, sir. In the conference with the W. P. B. representatives in Providence 3 days ago we analyzed our situation as far as we could. I will deal specifically with one industry as indicative of others. At the present time there are approximately 1,000 plants in the jewelry industry, employing approximately 25,000 people.

The CHAIRMAN. One thousand plants, employing 25,000 people?

Mr. HINES. Yes, sir. You notice the ratio is low. They are unable to continue, either because their volume of war production is too small to sustain them or because of lack of necessary machinery, which is tied to their inability to secure additional war work. Let me give an illustration of what I mean by not having sufficient war work. There is one concern—I will furnish the name of it if you desire—a jewelry manufacturing concern employing 600 people in peacetimes, approximately 50 percent of whom are women. At the present time, there are 24 persons working in that plant on three shifts turning out dies for ammunition on home-made apparatus. In other words, in one little corner there they are going 24 hours of the day, but the rest of the plant is completely shut down. Obviously, such concerns cannot stay open on such small subsistence. They have got to get more.

Mr. BULWINKLE. What else have they got besides jewelry?

Mr. HINES. We have many kinds of manufacturing plants. We are a widely diversified manufacturing community. Our principal industry is textiles. Cotton textiles, of course, are going very good. Woolens are suffering certain seasonal declines. We have also a machine-tool industry which is going very strong. We have the rubber industry, which, of course, is badly hit. We have electrical industries, which are probably 50 percent of their normal production, and many, many

small concerns making all kinds of specialized articles. For instance, we have 25 plastics manufacturers. In those plastics manufacturers, they are 100 percent out of business.

The CHAIRMAN. But this concern that you just mentioned a while ago—if you will pardon me, Major—that normally employed 600 people and now has 24 people working with home-made equipment—do you have some plan whereby you can put all the rest of those people to work?

Mr. HINES. Yes, sir. I would like to make these suggestions, that I think might help. This arises from considerable contact with the smaller manufacturers, with prime contractors, their home offices, and governmental departments. The principal difficulty at the present time of the small manufacturer is getting machinery, and at the same time we have a declining order rate. In other words, the concerns that 6 months or 9 months ago felt they could take a gamble to convert because there was plenty of business had some reasonable justification, but today with such a declining order rate it makes the contract very, very risky. Now, when they do convert, there are many hidden costs that are not normally considered. Supposing that manufacturer was able to get his machinery either by purchase through Government subsidy or through money borrowed from a bank, or from any other source, he still has got a lot of cost in setting up. He has got to take that machinery, which is heavy usually—it has to be placed in a certain position; he has to pull back his labor; he has to replace the things that are lost. It takes some time and expenditure before he is able to convert or to be able to manufacture again. So that it is my personal opinion that the big difficulty in conversion is that the smaller manufacturer does not know specifically what he has to convert for, what he is going to actually make.

You go to a prime contractor and he says: "Why, sure, we have got plenty of work. Here is some right here." Well, before they can possibly convert to make that, that order is all gone and some other things are in the market. So that I believe that the primary assistance that needs to be given to the smaller contractor or the smaller manufacturer who has to convert is to see that the order that he can get is frozen, waiting until he is able to produce it. There is a big time lag in there with no certainty on his part that if he does buy this machinery, if he does make this expenditure, that he is going to make exactly that.

Now, in the case of the smaller manufacturer particularly, the purchase of machinery is his major investment. If he buys a lathe and then discovers, when he is ready to do business, that he does not need a lathe but he needs a grinder, he is in a hard position. So it would seem to me that one of the key answers to the operation of this new corporation is not lack of capital. He can usually get capital if he has got some assurance of manufacture, but the order needs to be held for him until he is ready to manufacture it.

Mr. BULWINKLE. Now, let me get back to these jewelers.

Mr. HINES. Yes.

Mr. BULWINKLE. You say there are about 1,000 of those employing about 25,000 people?

Mr. HINES. Yes, sir.

Mr. BULWINKLE. What is the highest range of employment in any one establishment?

Mr. HINES. I should say that a year ago practically every jewelry worker in the Providence-Attleboro area was working.

Mr. BULWINKLE. What was the greatest number of employees in any establishment?

Mr. HINES. The largest concern in the jewelry industry will employ 600 to 800.

Mr. BULWINKLE. 600 to 800?

Mr. HINES. Yes.

Mr. BULWINKLE. How many of those 600-to-800 establishments were they?

Mr. HINES. Probably not more than five or six.

Mr. BULWINKLE. So they ran on down then to one?

Mr. HINES. Yes, sir; all the way down the scale.

Mr. BULWINKLE. And there were a great many ones?

Mr. HINES. Not ones, but 10 and 20.

Mr. BULWINKLE. Well, you are going to have more than 25,000 out of employment then on that basis.

Mr. HINES. Well, I am not saying that all the jewelry business is going to be completely out of business.

Mr. BULWINKLE. I am talking about the thousand you said were out at this time.

Mr. HINES. You mean the ratios?

Mr. BULWINKLE. Yes. You said there were about 1,000.

Mr. HINES. About 1,000 concerns.

Mr. BULWINKLE. About 1,000 concerns employing about 25,000 people.

Mr. HINES. Yes, sir.

Mr. BULWINKLE. Now, then, we come down to the fives.

Mr. HINES. Yes, sir.

Mr. BULWINKLE. What kind of war work could any of those industries employing five people do?

Mr. HINES. Of course, my answer would have to be very general, because they differ. One jewelry manufacturer makes rings, another fellow will make compacts.

Mr. BULWINKLE. All right, now; we will take the rings.

Mr. HINES. Yes.

Mr. BULWINKLE. I want to get it for my own information.

Mr. HINES. I will be happy to tell you.

Mr. BULWINKLE. What kind of war work could that man employing five people making rings do?

Mr. HINES. There are two or three things that any jewelry-manufacturing plant could do. For instance, take electrical work. A large part of the operation in making jewelry is soldering. Jewelry is primarily a stamping, putting plating on it, it is an assembly job, and assembly is most of the times soldering together. So that for assembly work involving putting together the wires, panel boards, and such things, he could use his stamping machines and he could use his girls in the wire assembly, and that would be the finest piece of soldering done in the United States for that kind of work.

Mr. BULWINKLE. Have you ever undertaken to consolidate, we will say, 15 or 20 or 30 of these smaller concerns and organize them into a group that could do a certain amount more than what just one concern

could do? In this war we have got to do things quickly. If you say to this man who employs a few people, "You make this," and then the prime contractor has to check it on all of them, it takes too much time.

Mr. HINES. As War Production Coordinator I have tried to bring together other concerns, small machine shops that would tie in with jewelry shops and thereby make a completed operation. We have found considerable work, but as I say, sir, by the time that you would ever be able to pull that together to make a specific item, the order is gone. That is the big trouble.

Now, sir, obviously speed is the essence of this operation, but there are many, many parts of things that are continuing. I mean, by that, that the demand for it will be continuous for a long period of time without change, so that it would be very possible to freeze certain items that might be needed 6 months from now or 3 months from now. In other words, it is possible for the prime contractors to anticipate a demand that will be 6 months ahead and say, "Well, we will hold this for you and you should be able to start production say 4 months from now, in order that we will be sure of our delivery date."

Mr. BULWINKLE. Well, the prime contractor may not know 6 months from now whether he is going to get another contract.

Mr. HINES. That is true, but in some cases the contracts are so continuous and so vital that they have received practical assurance from their ordering groups that the work will be continuous.

Mr. BULWINKLE. You remember the Manville Jenckes concern in Pawtucket?

Mr. HINES. Yes, sir.

Mr. BULWINKLE. All that machinery was taken out of it and put in other places in small bunches.

Mr. HINES. I do not feel I can speak authoritatively on it, because it occurred before my time. I do know the machinery was all gone, and I presume it was sold in the open market. I presume a considerable part of it was.

Mr. BULWINKLE. But the space in the building was not all vacant?

Mr. HINES. No, sir. There were 425,000 square feet of vacant floor space in the Manville Jenckes Building.

Mr. BULWINKLE. At Pawtucket?

Mr. HINES. Yes.

Mr. BULWINKLE. They were talking years ago about renting it out to smaller concerns.

Mr. HINES. Let me paint a picture that will help you. We are one of the distress areas of the country. The Plant Site Board has told me there are three areas that might be considered to be industrially distressed areas. New York City, of course, is first. The Providence area is second, and then they spoke of the Merrimac Valley of Massachusetts. Of course, they are thinking in terms of large groups of people, and I suppose that does not say that they are going to stay that way or that other ones are not going to come into that category, but at least at the present time those are the three that are considered to be the areas that are badly in need of industrial work.

We have approximately 60,000 industrial workers listed with the Federal Employment Service, or will be listed with the Federal

Employment Service in the next 2 months, within 30 miles' commuting perimeter of Providence. That includes such cities as Fall River, New Bedford, Taunton, Pawtucket, Woonsocket, and a host of smaller towns. We have approximately 3,000,000 square feet of available manufacturing space. Our community is almost completely slack from the viewpoint of industrial work. Our railroads are not in full use.

There is contained in this list here a list of the machinery in 750 plants. It comprises 18604 machine tools. That is the listing of the W. P. B.

The CHAIRMAN. You mean that are idle?

Mr. HINES. 50 percent of which are either idle or will be within the next months.

The CHAIRMAN. Now, the phrase "machine tools" I do not think is commonly understood.

Mr. HINES. Yes, sir.

The CHAIRMAN. Of course, in the South we probably think of it as some monkey wrench, or something like that, but you refer to it as a large device for stamping steel?

Mr. HINES. No, sir.

The CHAIRMAN. Or automobile bodies?

Mr. HINES. No, sir. The major characteristic that distinguishes a machine tool from any other kind of machine is that it has scrap. In other words, it has filings, stuff left over, drilled out. There is always something left over.

The CHAIRMAN. That is a machine tool?

Mr. HINES. That is a machine tool. It includes such machines as millers, grinders, drillers, planes, and things of that sort.

The CHAIRMAN. They all manufacture something?

Mr. HINES. That is right. They punch something and there is scrap left over. A pressing machine is not a machine tool. For instance, a molding machine that would take a piece of metal and just mold it into shape is not a machine tool.

The CHAIRMAN. Neither would a crowbar or monkey wrench be a machine tool?

Mr. HINES. No, sir.

Mr. BULWINKLE. One of the shortest definitions for machine tool is what tools can be made on it.

Mr. HINES. That is right. It is used to make other tools.

The CHAIRMAN. And you have 18,000 in that area?

Mr. HINES. Yes, sir. This is the W. P. B. category listing. In other words, this is the determination of W. P. B. as to what constitutes the machine tools, and here they are all listed in this paper. This was obtained through a survey made by W. P. B., and then it was brought together by us. We compiled it.

The CHAIRMAN. Necessarily, I presume, many of these plants, in our war effort, have been established in the interior of the country to get away from possible danger?

Mr. HINES. Yes. The 250-mile limitation on the erection of plants, created by Assistant Secretary of War Patterson, has resulted in, of course, keeping most plants in the interior of the country, especially new developments.

The CHAIRMAN. That has brought up many problems?

Mr. HINES. Yes, sir.

The CHAIRMAN. You take in our section of the country where they have an industry employing 15,000 or 20,000 people, most of them have got to be brought from other sections of the country?

Mr. HINES. That is right, sir.

The CHAIRMAN. They are generally people who are not accustomed to our habits and ways of living; the climate, and the custom of our country. Then they do not have schools to take care of them in the place where this industry is located. They begin to clamor for some aid to get schools. Then they need highways, they need transportation, they need sanitary facilities, they need a place to live, and all kinds of problems are arising on that account?

Mr. HINES. Yes, sir. The natural limitation of an area to manufacture is the basic economy under which it rests. The limitation to which a town can absorb manufacturing is the ability of the town to provide the necessary facilities that go with it. There is the question of water supply, sewage disposal, schools, police force, and fire department. That, of course, has meant that in many cases towns have just gotten to the point of saturation, as you have pointed out was the case in your district. On the other hand, here are big industrial areas which have been industrial areas for many, many years.

The CHAIRMAN. It would not upset you at all?

Mr. HINES. No, sir. We could take on a 25-percent additional absorption right now without employing another policeman or putting down another water pipe or building another school.

The CHAIRMAN. How far is your area from the coast line?

Mr. HINES. We are about 35 miles from the coast, sir.

Mr. BULWINKLE. Then, the thing that we would have to do is to get Judge Patterson to change that regulation.

Mr. HINES. Well, I am informed that that regulation governing the 250-mile location of plants is one that is overturned when certain other factors are present. First, if the emergency is great enough, if the industrial capacity is strong enough and needed badly enough, then they can overturn that rule, as witness the erection of plants in the Long Island area.

The CHAIRMAN. You take the big bombing-plane plants, they have been on the Pacific coast, right on the coast line.

Mr. HINES. That is right, sir. You may wonder why these things occur, why was not that economic question taken up in the earlier stages. It is easily shown why. The ordering departments obviously want to do business with the established large concerns.

The CHAIRMAN. People who could do the job quickly and have everything to do it with.

Mr. HINES. That is right. This area is an area primarily of small concerns, just as in New York City the concerns that are going out of business are comparatively small concerns. They do not qualify as prime contractors.

Now, there is very definitely a trend discernible in the many ordering bodies of trying to expand their subcontractors instead of expanding themselves. In other words, a concern will have an established base for procurement of certain components of parts and when the flow

of additional orders comes in they will try to expand that base. Now, I have maintained all along that one of the falsities of this set-up is that it places the war production on to narrow a base for major expansion, that even if we never needed the full capacity of this country it should be on a broad enough base so that in case it was needed it would be available. That means that it would be good business on the part of the Government to educate these smaller concerns for their place in this whole picture.

Mr. BULWINKLE. How many industries in Rhode Island are engaged in war work?

Mr. HINES. That, sir, I cannot tell; nobody can tell, because while you made new prime contractors nobody knows the volume of subcontractors.

Mr. BULWINKLE. Are there any prime contractors in that area?

Mr. HINES. Yes, sir. The machine-tool industry has one, Brown & Sharpe, Taft Pierce—three or four of the large machine-tool manufacturers in this country are located there, but we are in a dense area. In the area 30 miles around Providence there are one million and a half people.

The CHAIRMAN. Now, wait. Did you say a million and a half?

Mr. HINES. About a million and a half people. It is a dense area of town upon town, of town upon town. While our city has a population of 253,000 the second largest in New England, in Providence County there are 550,000, just in Providence County. Then, it goes on and on. You see the area envisages the lower southeastern section of Massachusetts and a slice of Connecticut, because we are the smallest State in the Union.

The CHAIRMAN. The Smaller War Plants Corporation, I understand will be set up pretty soon, any time in the next day or two.

Mr. HINES. Yes, sir.

The CHAIRMAN. Do you not expect that to help a great deal?

Mr. HINES. Yes, sir; I think it will be a very great help, but I do not think it will be helpful so much in the loaning of money as it will be in bringing the manufacturer, that is, the orderer and the little fellow who wants it together.

The CHAIRMAN. To eliminate the objection that you urged a moment ago, that the prime contractors are not passing on the contracts to the smaller fellows, this Smaller War Plants Corporation will be permitted to take the prime contract and allocate it to the little fellows.

Mr. HINES. Yes, sir. Please do not understand that I made that as a sweeping, broad statement governing them all.

The CHAIRMAN. No.

Mr. HINES. There is very definitely a trend on the part of certain prime contractors to expand their existing sources of supply rather than to spread it to other concerns.

The CHAIRMAN. I have quite a few letters asking Congress to declare a moratorium on debts during this emergency. Have you given consideration to a question like that?

Mr. HINES. No, sir; I do not think I would be qualified to pass upon that, sir.

The CHAIRMAN. I know I am not qualified to pass on that, but many people are suggesting that something should be done about the debts,

especially against people whose places of business are absolutely closed down. Take the automobile dealers and tire dealers, and many other people who, by reason of the war, will be unable to carry on or make any profit at all. Some of these requests come from people like that.

Mr. HINES. Yes, sir.

The CHAIRMAN. Not from a group, you understand, but it is just individuals making suggestions.

Mr. HINES. There are of course many distressful situations but the solution I confess is far beyond anything that I know about.

The CHAIRMAN. A lot of people of course depend upon dividends and on what they receive in income from property.

Mr. HINES. Yes, sir.

The CHAIRMAN. And payments on money they have passed on to other people?

Mr. HINES. Yes, sir. We are trying to solve our problem as far as the working people are concerned, as far as the manufacturers are concerned, in two or three directions: First, we are trying to sustain these smaller concerns, hold them in their capacity. Now, they may let people go, but they at least will hold a nucleus. There is some encouragement that they can eventually get in war production. They may need financial help, and that is why it is our suggestion that we should anticipate that need and help hold them together.

The CHAIRMAN. Until they could get enough war work.

Mr. HINES. Until they could get enough war work.

The CHAIRMAN. I can see a big difference between your views and the views of Mr. Philip Reed, the witness we had yesterday.

Mr. HINES. Yes, sir.

The CHAIRMAN. Mr. Reed believes that there are about 25,000 manufacturing concerns that cannot, under any circumstances, do anything in the war work, or producing essential civilian supplies. We have just got to do something with the 25,000. You say they probably will be in distress awhile and should be taken care of for awhile, but eventually you can work them in.

Mr. HINES. Some of them at least.

Of course the word "cannot" presupposes certain facts: First, that these concerns will not be called upon to do war work; or that the volume required a limitation in his mind, that he has apparently fixed on, but in view of the uncertainty of the war, the fact that we do not know actually what the load is that will be placed on industry, it would seem to me advisable to consider the possibility that they might all be called upon to work.

Our other method helps that situation. We are trying to get manufacturing concerns that have large war contracts and are pressed for need to come up to Providence, or in that area, take the vacant space, take the flush of labor for their own use, so if we do not get work for them one way we will get it for them in another. Now, in that set-up, first, there is a violent dislocation, but you take an industrial area that has been industrial all its life, and its people before them have been industrial workers, they are very easily converted to almost anything. They are factory trained. Monotony does not bother them. They are manually dexterous, they are used to handling machines. It requires just a small amount of upgrading to get them

to handle another machine. So, from the viewpoint of available productivity, Providence is looked upon today, I suppose, in the same category as New York City and these other industrial areas as most advantageous for increased production.

The CHAIRMAN. Let us take the factory employing 600 people that you mentioned a little while ago.

Mr. HINES. Yes, sir.

The CHAIRMAN. Now, would you think that you can get that plant converted into essential civilian production or the production of war supplies?

Mr. HINES. I happen to know that that particular concern and one other just like it are very anxious to get war work, so much so that they have asked me to come down to advise them as to how they could do it, and I have given them places where I knew that war work was located, but if you start at the beginning you start to see the problem. They manufacture jewelry. Jewelry is composed of stamping machines, plating apparatus in which they plate this material, and they have hosts of benches at which girls work to put the stuff together.

The CHAIRMAN. Let us assume, though, it will be 6 months before they will be converted into something that they can do, how will you take care of the plant in the meantime?

Mr. HINES. In some places they do not need to be taken care of. They have got sufficient capital.

The CHAIRMAN. Well, in the case where the time will be so long that they cannot take care of it, what kind of aid would you give them, if any?

Mr. HINES. It would seem to me, sir, that if somebody should decide that such a conversion might be potentially useful in war production and would define the type of war work that it might engage in, that some financial help, perhaps of a loan character, might be necessary, but I do want to point out that there are many ways in which they can procure money today.

The CHAIRMAN. Yes; if they have any kind of a contract or have any bright outlook for the future there is plenty of money available to them.

Mr. HINES. Yes, sir. In order for them to get into production they would have to do this: First, they would have to know what they were going to make. I think that is the key to the whole situation, what would they be called upon to make precisely, because it might require different types of machines. Then, they would have to try and get machinery of some sort to make that, to fill out what they haven't got. Machinery is very scarce, new machinery particularly. If they went into the second-hand machine market they would probably find machinery that needed overhauling in order to hold the precision that is required. Well, there is an expenditure there. Now, sir, they have gotten to the point, say, where they have got the machinery and they are about ready. Then, they have the job of production engineering. They have to place that machinery in certain spots in the plants. It is a very definite engineering job. Then, they would have to take their help and do this little upgrading I spoke of or provide operators for that particular machine. Then they are ready to go, and then you will have no trouble. It is that interval that lies in between where

they are and where they have got to get that needs to be taken care of, and the first consideration is to be sure they know what they are going to make. Otherwise, it becomes a wild speculative gamble into which no businessman would be justified to go, because he has got no assurance, after he has got his plant set up to make this thing, that there will be a demand for it.

The CHAIRMAN. Well, if the Smaller War Plants Corporation functions like we believe it will, it will cure a lot of that stuff.

Mr. HINES. I think so.

The CHAIRMAN. Are there any further questions that you would like to ask, Major?

Mr. BULWINKLE. No.

The CHAIRMAN. We appreciate your testimony very much.

Mr. HINES. I will file this list of manufacturing concerns and the machine tools contained in them.

The CHAIRMAN. Let the major have this one, if you do not mind. I will bring mine down and then we will file it with the committee.

We will adjourn until next Wednesday at 10:30 here in this room, when Mr. Leon Henderson will be here.

(Whereupon, at the hour of 11:20 a. m., the committee adjourned until Wednesday, July 15, 1942, at 10:30 a. m.)

SMALL BUSINESS IN THE UNITED STATES

WEDNESDAY, JULY 15, 1942

SELECT COMMITTEE TO CONDUCT A STUDY AND
INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM IN
ITS RELATION TO SMALL BUSINESS IN THE UNITED STATES,
Washington, D. C.

The select committee met, pursuant to adjournment, at 10:30 a. m., in room 1301, New House Office Building, Hon. Wright Patman (chairman), presiding.

Present: Representatives Patman (Texas), chairman; Bulwinkle (North Carolina), Kelly (Illinois), Fitzgerald (Connecticut), Halleck (Indiana), and Hall (New York).

The CHAIRMAN. Mr. Henderson, we appreciate your coming here this morning. This committee, the House Committee on Small Business, is investigating the plight of small business, and especially with reference to what can probably be done to assist those thousands of manufacturing concerns that are unable to convert into the production of war supplies or into the manufacture of essential civilian supplies.

Mr. Reed, of the War Production Board, Mr. Philip D. Reed, testified that there are about 25,000 of these concerns that he did not believe could be converted.

Mr. Hines, of the Providence Chamber of Commerce, the next witness, testified, and stated that he believed most of these industries could be converted, or practically all of them, into the production of war supplies or essential civilian supplies.

The question of subsidies has been brought up.

Anything that you want to tell us along that line that will be of help to this committee in searching out a proper remedy will be very much appreciated. So will you give your name and your official position to the reporter, and proceed as you please?

**STATEMENT OF LEON HENDERSON, ADMINISTRATOR OF THE
OFFICE OF PRICE ADMINISTRATION, MEMBER OF THE WAR
PRODUCTION BOARD, DIRECTOR OF THE OFFICE OF CIVILIAN
SUPPLY OF THE WAR PRODUCTION BOARD**

Mr. HENDERSON. My name is Leon Henderson. I am Administrator of the Office of Price Administration, a member of the War Production Board, and Director of the Office of Civilian Supply of the War Production Board.

The CHAIRMAN. Mr. Henderson, since you mention about being a member of the War Production Board, I want to ask you something that is not directly related, but indirectly related.

Who determines whether or not an article or commodity will be rationed?

Mr. HENDERSON. The War Production Board makes the determination as to the rationing, and then tells O. P. A. how much is available to be distributed on an equitable basis, and O. P. A. picks up from that point and makes a program for equitable distribution of a scarce commodity.

The CHAIRMAN. Now, that applies particularly, I presume, to tires and to sugar and to gasoline on the eastern coast?

Mr. HENDERSON. It applies to the major programs. These come up to the War Production Board itself, but an item like bicycles, for example, which is not of sufficient importance, that will be handled by the W. P. B. staff and recommendation made to us.

The CHAIRMAN. The point I wanted to get clear on is that the War Production Board first determines whether or not an article will be rationed?

Mr. HENDERSON. That is right.

The CHAIRMAN. And determines how much will be available for civilian needs outside of the war effort?

Mr. HENDERSON. That is correct.

Let me use, for example, the Nation-wide gasoline rationing. In that case the Board knew from its almost daily contact with the rubber situation that there was likely to be a problem of scarcity of civilian tires, and many, many weeks ago asked O. P. A. to be studying how to ration rubber and rubber products, and to be prepared with a definite plan in case the situation got so critical that it warranted going ahead.

Now, that was a recognition on the part of the Board that it takes several weeks for the outlines of an effective program to develop. This country is traditionally so free and so unrestricted that frankly Mr. Chairman, the elements of a program of regimentation, that is, the basic material, the basic principles, and things like that, are so foreign to us that you have to start almost at scratch with any kind of a rationing program to know what the equities should be.

Then in addition, once having determined the general outlines of a plan, the printing job alone—as, for example, in the case of the sugar books, was the most tremendous single printing job that the world had ever known. It affected, of course, 130,000,000 people. I think we gave out over 120,000,000 books; 79,000,000 people came in to the schoolhouses for their registration.

Well, then your next program is, of course, the training, mainly of volunteers, to receive the applications and to handle the public.

Well, the Board had made no real determination, as of a date, on the gasoline rationing, but sensing the shortage situation, and that other developments might not repair the gap, we were told many weeks in advance of the outbreak of the widespread controversy to get to work on the technical phases.

Now the decision to ration or not to ration does not lie with O. P. A., but because of the fact that we do make these basic studies, and do prepare the program, and do have responsibility for the training of the volunteer workers, and do have the responsibility, once it is decided, to actually go ahead with the mechanics, the impression naturally gets at large that O. P. A. actually has the decision whether or not to ration.

The CHAIRMAN. Who composes this Board that actually determines whether or not an article or commodity will be rationed? Donald Nelson, of course, is Chief.

Mr. HENDERSON. Donald Nelson is Chief; the Secretary of War; the Secretary of the Navy; the Secretary of Commerce; Lieutenant General Knudsen; and Sidney Hillman, although he has been ill for several weeks, but I think he is still a member; the Vice President, in his capacity as the head of the Board of Economic Warfare; and myself, representing both the O. P. A. and the Civilian Supply interests.

The CHAIRMAN. And these people must pass upon that question before O. P. A. has any authority whatsoever, and then only the administrative authority?

Mr. HENDERSON. That is right, they pass on the major programs.

The authority to determine a program rests basically with Donald Nelson, but he has chosen to use the War Production Board as a Board, and the major policy questions go to it.

The CHAIRMAN. Pardon me for this diversion, I wish you would proceed—

Mr. HENDERSON. I would be glad to have any diversions.

Mr. HALL. They determine the policy of rationing. Does O. P. A. or does someone else, decide the quantities of the rationed articles to go to the citizens? Who has that part?

Mr. HENDERSON. The War Production Board decides how many tons of rubber, for example, are to be permitted in a certain month to go out by way of tires for busses and trucks and things like that; and once that is done, O. P. A. makes the determination as to who gets them.

Mr. HALL. And the same rule applies to sugar and to gasoline?

Mr. HENDERSON. To sugar; yes. We were given, on sugar, an overall estimate, prepared by the Board. I might say, on sugar, that—here is one case I would like to speak off the record, and if there is something I can put on the record I will do it.

The CHAIRMAN. Off the record.

(Discussion off the record.)

The CHAIRMAN. All right; you may proceed, Mr. Henderson.

Mr. HENDERSON. Well, I am pleased to have the opportunity, because the programs that O. P. A. administers, rationing and prices, are decidedly likely to adversely affect small business; and in addition, the civilian supply programs, as we see them in the War Production Board, are such drastic cuts on supply that there cannot help but be a terrific impact upon the organized economy as it has existed up to this time.

It is a most curious situation, for the reason that we have gone up in our production rate to a place where we are about 60 percent, in physical production of goods and services, above our previous high, but the faults and the penalties come by reason of the conversion to the war effort. I would say roughly, in 1942, that we will use one-third of the total gross national product, that is, of the production, for the war effort; and that by the end of this year, by December, we will be up to something like a rate of 45 percent. That comes close to one out of every \$2 worth of production being for war account, and it puts us within a striking distance of our maximum that can be diverted to the war account.

Now, you can test your maximum, as I was doing in this very room last year, by what can be done by a totalitarian state that has a complete control of every item that enters into the manufacture of goods, and I don't believe that on a comparable basis Germany, Italy, or even Russia, ever went above 60 percent in any one month. They more likely have been closer to 55 percent. But obviously all businesses are not subject to conversion. My own information corroborates that given by Philip Reed before this committee, that there will be many thousands, probably 24 or 25 thousand, of the manufacturing establishments which are physically unable to participate in the war program, and by reason of the fact that our production system right now for the war account is limited mainly by the availability of raw materials.

I will put it this way: The plant capacity for the manufacture of war goods right now, and the labor force that is available to be employed, is in such good condition that if we had the components and had the raw material, you could go even further, especially on the combat items, items like tanks and planes and things of direct military account.

Now, the forward surge of production, war production, has put us at a place where there is a pretty good idea that we have got an overload on the capacity to produce, in terms of balance; for that reason, you may have to cut back, and probably will have to cut back, on the use of raw materials for new facilities, and use some of what you might call your seed corn for keeping the factories going at the highest point of production now.

Well, in a situation like that, obviously you cannot spare, for 24,000 small manufacturing establishments, the new machinery, the machine tools, and everything else, to get them to gear into the war program, even if you could take the orders and split them down so that you got a pro rata amount based upon some previous base period.

Do I make myself clear on that?

The CHAIRMAN. It is a question of not being able to furnish the critical materials?

Mr. HENDERSON. It is a case of critical materials and critical tools.

I will put it this way. Although we have got a tremendous demand for war production, and we are up now to something like \$4,000,000,000 a month, and will be getting up to \$5,000,000,000, and 5½ billion dollars a month, the raw materials, the critical tools, and things like that, are so limited that even if you had a program, as some people have conceived might have been started at first, and distributed your orders around to all of the manufacturing establishments, you couldn't do it now, you just can't spare enough material to go to those plants to set them up, even for the making of shells or the simplest form of ammunition, which almost any kind of an efficient machine shop can produce.

Mr. HALLECK. Mr. Chairman, the Rules Committee is meeting on the tax bill, and I am afraid I shall have to be over there. I just wanted to explain, and I am sorry that I can't stay.

The CHAIRMAN. We will excuse you under those circumstances.

Mr. KELLY. Who is in authority to grant the right of an industrial institution, or a small manufacturer, whether he is equipped to han-

the war work or not—does that authority rest solely in the War Production Board?

Mr. HENDERSON. No; it is a combination of War Production Board and the agency which has the contracting authority, the war agency.

Mr. KELLY. The reason I asked that question is this: There was quite a concern in the city of Chicago that was properly equipped to manufacture signal equipment, in fact they were in the manufacture of radio equipment prior to the declaration of war. And they had been down here for some time trying to convert their plant into accepting war contracts that they could utilize that plant for. They employ in the neighborhood of around 1,300 or 1,400 employees. And he had been down here from December up to the latter part of April, trying to get a war contract, and he couldn't get any information as to where he could get that contract.

Mr. HENDERSON. Well, he ought to have been able to get the information.

Mr. KELLY. He told me he had been to different offices here, and couldn't get the proper information, and finally he came in to my office, and I called Donald Nelson personally, myself, and Nelson had him go down there, and he did get a contract, a war contract, in the same line of manufacturing process that he was manufacturing.

Mr. HENDERSON. Well, I think the War Production Board is so organized now that it can direct the average manufacturer into the right channels of information. We have had very, very little complaint, Mr. Kelly, on that recently. I think beginning about February, I would say, they got on a very well-organized basis for handling people that were coming to town asking that information. But the giving of the contract is something else.

Now one of the—

Mr. BULWINKLE. May I interrupt just a minute? You are speaking of twenty-four to twenty-five thousand small plants that will go out of business. Have you any break-down on these plants as to the number of employees, the number of plants employing a hundred or less, say, or 500 or less, or anything like that?

Mr. HENDERSON. Well, I am relying on the study that Philip Reed used as his basis, and suppose I go back to that study and see.

Mr. Fowler, is there a break-down on that?

(Document handed to Mr. Henderson.)

These 24,000 did about \$4,000,000,000 worth of business, which was about 13 percent of all. That means that 13 percent of all the manufacturers face the prospect of shut-down in the fall, and that they had about 8 percent of the total net sales. That is the substantive portion.

Mr. BULWINKLE. I was just wondering how many of these were small plants employing 5 or 10 or less, something like that?

Mr. HENDERSON. Well, I will have to supply that. I haven't got that break-down. There was a study made by the Census for the War Production Board. Suppose I see whether it can be furnished.

Mr. BULWINKLE. Well, you are too busy to get that. What with your attendance at committees of Congress, I don't see how you get much time in anywhere else.

Mr. HENDERSON. Well, the important thing always is to, as I see it, try to see what is coming over the horizon, and the big reason I wanted to come down here today was that I see a number of impend-

ing threats against business, small business, the way it is set up, that are inevitable, that need some attention.

Now this committee, and its opposite number in the Senate, have been responsible for some substantial items of legislation directed toward specific problems. I would say conservatively that you haven't scratched the surface of the responsibility, if the country wishes to assume one, as to what is likely to happen to small business in the months to come.

I will put it this way. Right at the present time, because we did have such a growth in the consumer goods manufacture, there is no shortage of goods at retail. The amount of money being spent for consumer's goods is about the same as it was in 1939 and 1940. But the amount of goods that will be available in a few months will obviously be a much drastically reduced amount, just cutting out in the conversion program literally hundreds and hundreds of items. And when you think of the number of retail establishments that have specialized and may have specialized on some one category of things to be sold, you know what is likely to happen to them.

We cut out 150 items the other day in the War Production Board because of the necessity of finding metal; always the war drive is one of metal.

Now, that impact is not understood by the general public. It is vaguely sensed. You are always on the prongs of indecision as to what you should do. If you keep calling attention to the prospective shortage, you are likely to induce hoarding, a drive away from money into goods, which compounds your problem, compounds your necessity for rationing, and puts a threat against your prices.

On the other hand, there is a substantial warrant for the idea that the American public should be told fully and completely about any of its prospects when any of the Government agencies know it.

Somewhere in between those two prongs is where the Government bureaucrat usually falls, and he usually gets impaled on both of them.

Now, this will reach back and affect so many establishments and will affect them in ways that are 2, 3, or 4 steps or stages removed from the action which the War Production Board takes, of necessity, in order to carry out the war program.

Let's take the example of gasoline rationing here in the East. The program for service station deliveries under the new rationing program will probably not permit more than 50 percent, shouldn't permit more than 50 percent—and it may come closer to 45 percent—of what the volume of business was in this territory for the small retailer a year ago. Now, obviously the necessity for volume in the little establishment is a compelling one, but the necessities of the situation just simply say we can't have more than about 50 percent.

In normal times what that would mean is that the usual competitive processes would eliminate those that weren't well placed or those that didn't maintain their customers, and you would have the usual death rate of enterprises that a healthy economic system has when it is making its changes and adjustments. But here is an action of the Government, taken as a result, very definitely, of the submarine menace, the war program.

I see no way, frankly—and it is something that bothers me—I see no way by which the actions that we take on rationing can maintain

or do more than just a mild amount of tempering for the 125,000 gasoline dealers in this district. Obviously, you can't give them more gasoline. Their need is enough of the product to cover their overhead, the certain amount that they have got to have, and there is no way that you can do it in price.

I think we know now, from the complaints that have gone on because of the raise of 2½ cents a gallon in gasoline on the east coast, that there is no possibility of raising it 5 to 6 cents more, which would allow the individual retailer, if he got all of it, to live at the reduced volume. And I question whether or not the Government should do that in carrying out its program.

Which gets me up, by using that illustration, Mr. Chairman, to the point that I made in the Banking and Currency Committee. I think there is a duty, an obligation, on the part of those in charge of the various war programs, to be choosing the type of action which is best able to be absorbed by the whole community. I think when they have got a directive, that flows from the war circumstance, to do a certain thing, whether it is to cut a price or to raise a price, whether it is to cut a ration or to increase a ration, whether it is to cut off one group from access to any material or to let another group go unrestricted, that there are social policy and business policy questions in every one of them, and the obligation lies on the governmental administrator to make the best choice consistent with maintaining the integrity of the economy. But he cannot, because of the very facts of scarcity—and facts are our masters—be making enough of those, or be making, say, in this case like I have illustrated, or in the case of the tire dealers or the automobile dealers, he can't himself make those decisions. Therefore the Congress is confronted with the prospect of a changed set of social circumstances, of new integers in the whole economic program for which it has a responsibility.

And, therefore, a committee like this ought to be constantly in touch with the administrators for them to say what is coming over the hill that is likely to affect conditions, so that they may, in their own way, choose appropriate methods if they feel it desirable.

Now, there are some who would contend that if you have casualties of small business by reason of the war effort, that it is in the same category as a casualty on the part of a man in the armed services, that the Government has no responsibility.

There are others who shy away from this and go to the further extreme, that the Government has a complete responsibility, that if it makes a decision which is such that it adversely affects or ruins a business, that the Government should compensate; that it should recognize that just as it would recognize a destruction of property that came as the result of bombing or that came as a result of some requisitioning act on the part of the Government, or a confiscation.

Now, the committee may or may not be interested as to where I am on that particular question.

The CHAIRMAN. We would like to have your views on that, Mr. Henderson.

Mr. HENDERSON. I am somewhere in between, probably midway in between. I am not one that gets scared about the idea that a subsidy destroys morale. I think the important thing about a subsidy, or some type of appropriate protection for a devastated small business,

is to be judged by what you get out of it. Now, if this country wants to insure that it has got a strong mechanism of production that has a good, substantial business base, then it certainly can approach the problem of keeping some of those businesses intact from a dollar and cents standpoint, from a standpoint of how long it takes to build up a business, how long it takes to establish a reputation, how long it takes to know the avenues and channels of trade, how long it takes to understand a neighborhood; and above all, at the end of every one of those businesses are people. Now, if the Government is thinking in terms of strength, of the whole fabric, and is thinking that we are fighting the war not because we love to fight but because we want to live a certain way in the years to come, then it has a right, it seems to me, to be considering what the effect of its acts will be on small business.

And the point that I want to make—and I am not trying to escape responsibility for actions that I may, as an administrator, take, as they fall on other people, and say, "Well, that is not my business, that is Congress"—I am saying that the things which are available to the War Production Board, for example, in this tremendous shift-over—the greatest shift-over the world ever knew—are entirely inadequate, even with the Small War Plants Corporation and everything else, are entirely inadequate to handle what is the impact of a war program. They just can't handle it, the one that the President has entrusted to them, the one that Congress has delineated by the appropriations, and so forth, is making sure that come hell or high water this country gets into a high military production program. And as I say, tells them, "If you have got the choice between cutting 24,000 people's throats by denying them material, and just a few, naturally you should just make the social choice, but there is a limit to that social choice which a man that is responsible ruthlessly to deliver bombers and planes, can make.

So that I feel, looking ahead, that the problems to be anticipated, as far as small business, are in an entirely new magnitude as to anything that we ever had, they are in a new magnitude because of the usual norms of business and the usual things of adjustment not being present. That is, you can't take material, as I pointed out earlier, you can't take material and give it to the civilian, you can't insure to a retailer that he is going to have new business to cover his nub, that is, cover his out-of-pocket costs.

We are handling, on the service, over 600,000, as I recall, small service establishments that are under the general maximum price regulation; and, Mr. West, there are over 300,000 of those that have an annual business of \$6,000 or less; isn't that it?

Mr. WEST. The average over-all is \$5,500.

Mr. HENDERSON. Well, we undertake to put a limit on the prices that they can charge. Those people are all over this country. I would say that to come to Washington from the State of Washington with an individual complaint would probably take up 50 percent of the profit, I mean the cost of travel is such and maintaining yourself. But you can't escape the necessity of controlling that price.

The CHAIRMAN. Name some of those concerns.

Mr. HENDERSON. Well, they are laundry establishments, and the various cleaning establishments, the shoe-repair establishments—the

small service establishments that people have to have in order to keep going. Now we expect and hope to maintain that price situation, and our obligation, it seems to me, just to delineate a bit what I think our obligation is and what is not our obligation, is this. Our congressional mandate is to prevent inflation, to keep the cost of living from rising. These things are very important. Laundry gets to be tremendously important, particularly when you build a new city or you move whole thousands of people into a new area, and you don't have housing and things like that for them. Well, it seems to me that our obligation is to handle the hardship cases, to handle the things that fall outside of the general regulations, the obvious ones where adjustment is needed. Therefore, we ought to build the kind of an organization, and we ought to put the authority to make the adjustments and the interpretations—sometimes it is just a matter of interpretation or information—far enough back so that the merchant can go ahead and know that he is not violating the law.

However, if there has been a change, a big change, in the volume of business that is to come to him by reason of the taking of materials away, and so forth, we certainly cannot allow him to double the price, we can't certainly allow him to take advantage of the shortage situation.

The law specifically was passed to prevent prices from following their natural course. In other words, we have an obligation to maintain a level and maintain the type of relationship with that individual so that he gets justice under the law, that the question as to whether or not he ought to have some—if he has to go out of business—whether he ought to have some kind of a subsidy by means of helping him to carry the overhead, to carry his lease until the war period is over, there is nothing in my law, there is nothing in any of the powers assigned to Don Nelson that can take care of that question. That is what I say is properly a matter for congressional attention.

Mr. **BULWINKLE**. That is what I was coming to. Now with your study of this proposition, what have you thought, what is your solution, if any, of this?

Mr. **HENDERSON**. Well, Major, I am going to take refuge back of the fact that we have been busy trying to get organized. I don't think the country appreciates just what a big chew we took when we decided to make a maximum price regulation affecting all retail prices, affecting between two and one-half and three million business establishments, affecting the rents of 90,000,000 people, and the rationing for 130,000,000 people.

Mr. **BULWINKLE**. I think the country appreciates it, but sometimes there is so much conflict in the information that is given out that it causes confusion in the minds of the people. It doesn't come from you, it may come from somebody else in another department, but that is why they never know.

You can take the gasoline situation as applied to North Carolina. Here somebody goes and spreads a report that the one pipe line that we have, that they are taking gasoline from North Carolina into Tennessee and into Kentucky. I write to every one of these that wire me, and tell them to send me an affidavit and I will see that it is stopped. I have yet to receive an affidavit. But it is still confusion like that. It is perfectly natural, I can understand it.

Mr. HENDERSON. Life in wartime is confusing. The point I am making today—off the record.

(Discussion off the record.)

Mr. HENDERSON. An interesting comparison of public opinion is between the tire rationing and the prospective Nation-wide gasoline rationing. The tire rationing has been in effect since a few weeks after Pearl Harbor, and has been rigorously administered by local boards. It was explained several weeks in a row by our Office when we instituted the program. Every poll that we have had of public opinion has supported that tire rationing right down to the bedrock, just as overwhelming support and a recognition on the part of the public of the necessity for it.

And yet, when you come over to the question of rationing gasoline, which is based on the same premise as rationing tires with an eye-dropper, as we are doing now, the public support hasn't been there until recently.

Mr. BULWINKLE. And do you have it fully yet?

Mr. HENDERSON. I don't think you have got it fully, but the public, as we sense it, understands it a lot better than they did.

Mr. BULWINKLE. Coming back to what I asked you just now, in your opinion, then, would a subsidy to these twenty-four or twenty-five thousand corporations that will probably go out of business, a subsidy sufficient to take care of their overhead during the time when they are out of business, be the proper course? That is one course we could pursue, according to Mr. Reed. Have you any other ideas besides that?

Mr. HENDERSON. I wouldn't want to get into the techniques of it, but here are some general impressions:

My impression is that we will need a lot of those business establishments, and for that reason that we could afford an investment in them as an item in national wealth. Whether it would be a full subsidy or not, I am not qualified at this minute to say. It would seem to me, however, that it ought not to be an automatic guaranty, because certainly there is always a normal amount of disappearance, and the fact that the public has changed its mind about the product, that ought to be going on in wartime just as it ought to be going on any other time.

You can't avoid loss entirely, and maintain a competitive system and maintain a system that is based primarily on consumer preference.

Now, I think, however, that the approach through this means is the ablest approach of any that I have thought of; but we haven't spent our research time on that; we have spent our research time on what do you do if you run short of this, and trying to guess when we will run short of this, that, and the other, and trying to get a start on some of these rationing programs.

The ideal thing, Major, on a rationing program, is to start before there is any rush to hoarding and before stocks get depleted—that is, if you want to do a real rationing job.

Mr. BULWINKLE. To find out what you are doing, and do it quick.

(Discussion off the record.)

Mr. HENDERSON. I favor that approach and I favor it not for just the 24,000 manufacturing establishments, but I favor it for what the impact is going to be on the retail end.

Mr. **BULWINKLE**. I am having that proposition now with traveling salesmen on account of the gasoline rationing. There are 12 or 15 telegrams this morning about it, that they can't get the gasoline they need.

Mr. **HENDERSON**. Well, I think that one of the virtues of a war-ridden world is that there are more opportunities for employment.

Mr. **BULWINKLE**. I do, too.

Mr. **HENDERSON**. If you just subsidize a traveling salesman who hasn't got the goods to sell, that is one thing. To me the opportunity for work is to be distinguished. The traveling salesman has the capacity that he takes with him when he goes somewhere, he carries his treasury with him. But the fellow that has built a business and the assets of it, as long as he is operating it that is one thing, but the day he goes out of business and wants to sell, the assets are another thing. There are losses in there that are incalculable. I would make that distinction.

Mr. **FITZGERALD**. Mr. Henderson, discussing the service trades, and especially the laundries, of course the prices have been fixed on the laundries and the service trades also as of a certain date, that is as to what they can charge. But what has been done in order to control the cost of the materials that go into those service trades, and the cost of their labor; how can the businessman control that part of it? I have heard considerable complaint in my State of Connecticut where laundry after laundry has been closing up, and there is a great demand for laundry throughout that State, owing to the presence of the defense workers and the armed branches of the service.

Mr. **HENDERSON**. Well, as far as control over the price of the materials they buy, their chemicals and things like that, they are under control also. As far as the competition on wages, they are not under control, as we know, and that is an element that is outside my jurisdiction.

Mr. **FITZGERALD**. Well, how could you control the price of a product if you didn't control the cost that went into it? It seems to me that all of those things go together.

Mr. **HENDERSON**. We have been in this price-control business for several months now. I notice that with the metals and metal products, their prices are only up a little over 10 percent, and we haven't controlled the wages. In the house furnishings they are up about 20 percent.

Mr. **FITZGERALD**. Have you fixed the prices on those?

Mr. **HENDERSON**. Yes, and we have had them under control for quite some time, most of these. Here is the lumber and building materials industry; we have had them under control and they are only up about 20 percent, and the biggest part of that happened before we took control over a year ago.

May I help you make your point, though, because I am on your side? As long as you are on an ascending scale of production and as long as the unit cost of manufacture or of service is on the decline, you can get away without directly controlling wages or with leaving the controls to the natural pressures that are always there for the control of wages.

But when you reach a situation where you are tending to level out, where you reach the maximum of your productive capacity in an industry, and you have narrowed the profit down by taxation or by

price control, then automatically any changes in costs are bound to affect price.

Mr. FITZGERALD. Well, the complaint of the laundries—and I have just returned from my State where I have met quite a few of them—is that they claim that is only part of the control. I am not for control of the wages myself—

Mr. HENDERSON (interposing). I am not for their freezing but I am certainly in favor of their stabilization.

Mr. FITZGERALD. That is what I mean. That seems to be the complaint of the services, that the prices that were frozen way back in March 1941, was it—

Mr. HENDERSON. March of 1942.

Mr. FITZGERALD (continuing). That they were not high enough in order to allow them a profit, with the increasing costs of labor and the increasing costs of the materials that are going into their business.

Mr. HENDERSON. Of course, the profit level in March of 1942 was probably the best that we will see in this war period; it represented the highest that we had attained for a long, long time, and it was pretty uniformly diffused among distribution and manufacturing and services, and I think it was the most favorable in relation to absorption of roll-back and of additional costs that we ever had. But if there isn't a halt called on everything, naturally, you have got a rising scale.

Mr. HALL. I take it, then, that the stabilization of wages or the control of wages would make your job a little easier?

Mr. HENDERSON. Well, to put them in the order of their importance, the cost of living is threatened more by lack of the availability of subsidy than anything else; that is the most acute thing. The thing over the horizon is the stabilization of wage income for two reasons. First, we aren't going to make any more goods and so any additional amounts will press heavier on the price level and make the control harder. And second, it is going to change the cost items and therefore it changes the pressure against prices from that angle.

In other words, an increase in the wage volume that doesn't come from an increase in production, threatens us in two ways, one, because of the purchasing power pressing on the diminishing supply of goods; and two, because of the increase at a time when you are pretty well leveled out on your cost relationship to price. And together with the rest of the woes that I carry, I have absorbed a new one of supposedly being antilabor. For the first time in my long and certainly not placid history, I have acquired that cognomen.

Well, Mr. Chairman, we tend to get to rambling, but that is one of the reasons I like to know—this is an opportunity to know what is on the members' minds.

The CHAIRMAN. Well, on this 2½-cent increase in the price of gasoline, of the complaints that I have had the principal ones were that the big oil companies were getting this additional increase, and not the small distributor?

Mr. HENDERSON. The small distributor is not getting the increase. The increase is intended to take care of the increased transportation charges made for the bringing of gasoline into region 1, and that is a real and definite charge and one that will not be paid without a certified public accountant's certification that it actually has been incurred.

The CHAIRMAN. Will it amount to as much or more than 2½ cents a gallon?

Mr. HENDERSON. On all of the rises taken together, over a period of months, it will compensate for the increase in moving all petroleum products into the East by ways other than by tanker. It will not afford any element of profit.

Mr. HALL. Along that same line, is it your idea, Mr. Henderson, that we should make that raise in order to keep the profit level to the big companies up to what it was before we had to use the tank car?

Mr. HENDERSON. No. My idea was this: When we had to shift reliance to the tank car, there was a meeting with the industry, called by the Secretary, Secretary Ickes, and the question was, How could they get reimbursement for the additional costs? It was necessary for them to be able to see their way clear to bring in as much gas and other petroleum products as they could, and to do it quickly, to start right at once.

We said, "We will find some way of compensating for those increased charges."

Now there are other things which are affecting the return to the oil companies and the refineries, the whole change in the runs, in the yield, for example. Now that is a different story.

But this one was isolated so that companies with confidence could go forward, and some of them, particularly some of the smaller ones, got to the place where they had exhausted all their ready cash. Now, I wanted to handle that by means of a subsidy through the R. F. C., because I think that that is a charge against the entire country and not a charge to be assessed against the individual gasoline man.

Mr. HALL. Or against a particular area.

Mr. HENDERSON. Or against a particular area. But if we went back and left it to the market the price would be up more than that. If we just left the price of gasoline in this area, with this limited delivery, to what a man could get, it would go much higher than 2½ cents.

(Discussion off the record.)

Mr. FITZGERALD. Some people in this country would be willing to pay 5 or 10 cents more a gallon in order to get it?

Mr. HENDERSON. Sure, if we hadn't put it that way. We could have let them recover their costs and a very substantial profit out of it. In fact, that was the proposal that was made to us, to let the adjustment take its natural course.

Mr. BULWINKLE. But you would have had to have had another appropriation from Congress to the R. F. C. for that purpose, wouldn't you?

Mr. HENDERSON. No.

Mr. HALL. What, in round figures does that 2½ cents per gallon in the 17 eastern States mean?

Mr. HENDERSON. On a guess I would say that in the next 6 months it would mean \$200,000,000, conservatively.

Mr. HALL. In other words, if you subsidized it Congress would have to give somebody \$200,000,000 for those 6 months?

Mr. HENDERSON. That is right—it would be cheaper.

Mr. KELLY. Up to the present time, or rather, up to about 2 months ago, since the freeze order went on the price of gasoline, and the derivatives of crude oil, the oil companies operated at a loss on shipping of around \$38,000,000 to \$40,000,000, did they not?

Mr. HENDERSON. That is right; there was that much red ink in the pool when I made my decision.

Mr. KELLY. And that was through the added cost of transportation?

Mr. HENDERSON. That is right, and if we hadn't made it we would have had a fall off in deliveries, and we already have a deficit every day in the East in district 1.

One of the things we could have accomplished, Mr. Kelly, speaking of your State, is this. If I had taken the lid off because of the shortage here, we would have drained gas away from Illinois and Indiana, because if you could get more for it here, if the price had been raised here, then out there they would have raised the price competitively and the public would have paid many, many times what a little subsidy would cost.

Mr. KELLY. Well, getting back to the manufacturing end of this business, how many concerns today, manufacturing concerns, are actually in this war program? I understand that there are something like 184,000 manufacturers in the United States.

Mr. HENDERSON. It is pretty hard to tell how many are in it because of the subcontracts.

Mr. KELLY. Well, according to the Murray committee report, up to the 25th day of May there were altogether only 10,000 concerns in the United States, out of 184,000, that either had prime contracts or subcontracts, and the statement issued was that practically 75 percent of all the war contracts were resting in the hands of about 56 concerns in the United States.

Mr. HENDERSON. Well, I have seen those figures and I have no reason to doubt them. I haven't made the computation myself because I have had no responsibility at all for the small business problem.

Mr. KELLY. We would like to know, of course—and I appreciate your part in that—just what effort is actually being made? I come from quite a manufacturing territory, as you well know, and the average small manufacturer is scared to death. Now, many of these people have been in business practically all their lives; many of these corporations or small factories have been handed down from generation to generation, and they have been practically the lifeblood of those communities.

Now, today, because they can't come into the war program—and in many cases perhaps because they haven't made a sincere effort to try to come in—they are going to close down, they are going out of business. They are fearful that they will never open up again. They are fearing today a pyramiding of monopoly in America, that when this thing is all over there will be no incentive for anybody outside of a handful of men that control the entire production in America, right down to the marketing end of all products required for the necessities of the American public.

Now, that is the thing that we are trying to prevent, if we can. My attention was called just yesterday—I was in Chicago yesterday—to a manufacturer in my district that was engaged in the manufacture of steel equipment for steel desks, and 2 months ago, of

course, the inventory had been frozen on sheet steel for the manufacture of desks. He said that they were well aware of what was facing the country but they had enough inventory to keep them in operation until the latter part of September of this year, and yet they cannot use that steel and there is no effort being made by the Government to take the steel away from them. It is just lying there in their storeroom.

Mr. HENDERSON. Well, I think that that will be taken care of because the program for the picking up of steel is a very substantial one. Nelson and Knowlson have both taken an interest in it; there is a program for the financing of the frozen stocks of inventory, that was put out the last of May, and not only that but the requisitioning unit has been picking up those stores.

Mr. KELLY. Well, that will probably relieve the individual, but he had to lay off 100 people from that factory because he had no work for them.

Mr. HENDERSON. Well, we will have to lay off more. What I say to you today is this, to use a vulgar expression, "You ain't seen nothing yet." If this war effort is to go the way it must go in order for us to meet the demands on production, the man in charge of the War Production Board has no other recourse, he has just got to knock them off like we did the other day, 150 items, which means I don't know how many manufacturers being denied the vitals of life as far as manufacturing is concerned, that is, the raw material.

The whole war effort now is a greedy monster, just devouring tons and hundreds of tons of material, and we have gotten down to the place where we are sweeping up the small amount of supplies that the little manufacturer has.

Mr. KELLY. Well, here is something that I think the War Department should take a broad sight at, and I have had a controversial matter down there in the last month about it. It is over a plant that is coming into the Chicago area which, had it gone to the south side of Chicago, in the heart of the industrial section, they could have picked up the slack of this employment situation that is prevailing there now. But they have taken it away completely to the northwest side of Chicago, out in the prairie; and in view of the fact that the transportation problem is today facing this Government, they will have to build a housing unit out there which could have been avoided, and they are going to have to spend an additional \$3,000,000 or \$4,000,000 for a housing unit. Yet they can't give any definite explanation as to why they did it and they are paying at least \$500,000 more for the property than what available and more accessible property would have cost them, for the manufacturing and assembly plant that is going in there. They can't get the employees in the section of the city where they are going, because those people don't apply themselves to factory work.

Mr. HENDERSON. I think what you are delineating here is the outline of what is the responsibility of those in charge of the war program, which I was trying to say did rest there and could be handled there, with some additional legislation. What we are looking at however, the big problem, is what cannot be handled by diversion of war contracts and what will be, I would say, the effect at the second and third and fourth stages removed, on the whole distributive mechanism. That I don't see how you can get

at through the War Production Board which deals mainly with the control of raw materials and their distribution among the competing elements, and the finished war items necessary for carrying on a war.

Mr. FITZGERALD. Well, Mr. Henderson, do you believe that we have reached that point now?

Mr. HENDERSON. Which point is that?

Mr. FITZGERALD. That we have reached our saturation point as far as production is concerned. You could use a small manufacturer just as much in producing items for the war effort.

Mr. HENDERSON. My point, Mr. Fitzgerald, is this, the companies that have been set up with contracts to date for the making of war material, are equipped to make much more, and are the logical ones to make it now, and could make more if they had the raw materials or components. And I am saying that in order to get a new plant started on a conversion basis, what you would have to do is draw down on your machine tools and your materials; and from a war efficiency standpoint you are getting a better use of that material in the plants that have already got the contracts.

Mr. FITZGERALD. Then we are getting all the production practically that it is possible for the country to get?

Mr. HENDERSON. Yes; I think that we are within a relatively small percentage of the peak of production. I think the limitation is raw materials. Every time we sit at the War Production Board and go through this steel-plate situation, if there is anything which is a control at the present time it is steel plate, there is just so much, 1,100,000 tons, and there is 1,800,000 tons of demand—

Mr. FITZGERALD (interposing). And the large plant capacity is sufficient to take care of all of the raw material that we can produce in this country, and these 24,000 small businesses are just out of luck, they will have to be maintained by subsidy or go out of business?

Mr. HENDERSON. Or they will have to be brought into the concentration of production program which is just getting started.

Mr. FITZGERALD. What do you mean by that?

Mr. HENDERSON. Well, for several months the War Production Board and particularly the Division of Civilian Supply, my Division, has been studying what could be done on the limited amount of production for civilian needs.

Obviously, if you distribute that evenly, and you have only 30 percent of the former production, nobody could live, that is, if you kept your price level. So the next best thing is to arrange that some of the plants that are not adaptable for the war effort should have the production concentrated there, so that you would get the most efficient use of your materials and you would get a larger number of units, and you would get a lower price than you would if you distributed them everywhere.

But you have got to have a compensating program to go along with that, because of those who can't participate in the production. Now, there are ways of handling it, of having one plant make say a Victory model, which all the rest of them distribute, that is, they keep up their distributive agencies.

We are right in the middle of that program. One has already been done, and that is the stove industry, and I think a pretty intelligent job was done in allocating the production that we are to make,

the limited amount of production, to the companies that couldn't get into the war effort, and were not in areas that were competing for men needed in the war effort. Those would be the logical companies.

In that case every manufacturer above a certain size was just knocked out; he gets no quota at all. In other words, there was a definite effort made in that stove-concentration order to see that the remaining amount of production went to the smaller concerns that were less adaptable to the war effort. Now, something can be done like that.

The CHAIRMAN. Mr. Henderson, it is 12 o'clock. I wonder if the members of the committee would like to ask Mr. Henderson to come back some time at his convenience, or shall we try to finish today?

Mr. BULWINKLE. I don't think that we ought to have Mr. Henderson down here too often; he is a busy man.

Mr. HENDERSON. I have a dozen things to talk with you fellows about.

The CHAIRMAN. Would it suit you to come back at another time, Mr. Henderson?

Mr. HENDERSON. Yes; and I also could stay another 10 or 15 minutes this morning.

Mr. BULWINKLE. Let me just ask one or two more questions.

Mr. HENDERSON. Is your price control in danger of breaking down?

Mr. HENDERSON. Yes.

Mr. BULWINKLE. What is the cause of that?

Mr. HENDERSON. Well, the cause of it is severalfold. I want to make a distinction between price control and keeping prices at the level of March.

Mr. BULWINKLE. Well, then, let's put it this way—

Mr. HENDERSON (interposing): I would like to discuss both.

Mr. BULWINKLE. Is there a danger of a breakdown in the price control as you have administered it today?

Mr. HENDERSON. Yes. Now when we went into the program you will remember that there were seven points. We have been watching the Canadian program with considerable interest, and the Canadian program is tied very, very tightly to the fiscal and monetary policy, as well as the wage policy.

The Canadians had a price freeze similar to ours and they stabilized wages, agricultural prices and the retail and manufacturing prices, and in addition they went out for a very drastic program of taxation, and what amounts in their new tax bill to a forced savings plan.

But more important, the Canadian comptroller, sitting as he does right next to the money bags up there, and having—well, he got one subsidy authorization in a half an hour. Up there you don't have such a thing as this legislative process. It is a little more convenient—I am not advocating it—but it is certainly convenient.

But when they run into a situation such as we ran into in canned fruits and dried fruits, or as we ran into in gasoline, or as we ran into in sugar and coal and things like that, they chose to keep the cost of living where they had pegged it, and they would fight by every administrative and fiscal and monetary policy that the Government could rally to its support, to see that the cost of living stayed

there, because they know that the cost of living is directly related to inflation, and that it is worth while, that it is worth while making sacrifices here, it is worth while doing this.

Up there they pay 90 cents for wheat and sell it to the miller for 78 cents, so that they can keep the price of bread down. Now up there they keep the wages under control and if the cost of living goes up, they make an adjustment; and up there they take the excess purchasing power away by various means.

Now when we went into our program it was definitely understood that it was a seven-point program, and it was understood also that section 2 of our bill, which was debated right here in this chamber, which authorized buying and selling for the purpose of maintaining distribution and keeping prices in line, would give us the power to have access to Commodity Credit, to the R. F. C., or any other agency that could handle it, by means of a subsidy—and I don't want to avoid it, the word "subsidy" is right in our bill and I don't think it is such an ugly word—but that we would have those facilities.

Now in Canada when they got up against what seemed to be impossible situations, they found other ways of doing it. Now we didn't find them. As a result we had to raise the price of gasoline, with the results that you know. We had to let the ceiling go as far as dried fruits and canned fruits were concerned.

Our proposal on the handling of that was this. We recognized the standards of the act which say that a farmer is entitled to get the highest of those standards, 110 percent of parity. We proposed that the Department of Agriculture pay a price or guarantee a price, or make a support price, which would insure that the farmer now, as he brings the crop to market, in a limited amount of time, particularly with these vegetable crops—there is only a short time there—that he would get the benefit of what the price bill intended, and that you wouldn't wait until you got way off in December some time when the stuff was passing at retail and it would then reflect 110 percent of parity, but that he would get it now. In other words, you pay him his 110 percent of parity when he is taking it to market, taking it down to the canners.

On the other hand, we would keep the cost of living down by keeping the price of dried fruits and canned fruits and vegetables and everything else, where they are today, by means of buying them at the parity prices and selling them on a basis that the retailer could stay in business.

Now, we couldn't do that. With what result? There is a likelihood that the farmer won't get the benefits of the act because if you just leave the thing to chance, a lot of these things at this moment will not go up to the parity price, and they certainly won't go to the 110, and the gain which is bound to be reflected sometime, because we are using lots of those things, will be dissipated throughout the distributive system. Somebody may get a windfall profit here if he happens to hold a little longer, or somebody else may lose, but the thing will be dissipated in the inflation, that is there is nobody that is going to get any more; there is going to be no more physical quantity of goods, and all you are doing is impairing your effort.

Now, that is the reason why I say that we are in danger; we are more in danger of not being able to handle these situations, because any time you let one of those go after you have said, "This is what we are going

to do," the whole fabric and support tends to weaken; that is a natural instinct.

We worked back a number of situations and, in some cases, got the retailer to take a little bit, the wholesaler to take a little bit and the manufacturer to take a little bit, and keep the price stable.

They are hard jobs; they take hours of sweating in this hot Washington, and we let the price go on something else. What do you suppose happens when you get all the people in and say, "It is important; the President wants this price held, and we are going to sit in this room until we find some way of keeping that; we are going to find some way; and, if we get to a place where we find that the whole make-up of cost and price and profit is such that we can't do it, maybe we will go over and see Jesse Jones, or maybe we will go over and see Claude Wickard; but the important thing is that we are going to handle it this way."

And some fellow says, "You let the price of gasoline go up, didn't you? I am just as good as a big oil company, ain't I?"

What do you say, Major, in a situation like that? Well, then, you ask me whether we are threatened. We are threatened from that basis.

Then, on a longer basis, we are threatened from, well, attrition. We have bit off more than can be handled with \$120,000,000. The price law says this:

Whenever in the judgment of the Administrator he determines that so and so and so and so is happening or is likely to happen, he shall do this.

That is a congressional mandate. Well, I knew prices were going up and so I established a general maximum price regulation, and the reports that were coming in on rents—you may know about some of them—the index of rents was going up about like that [indicating by chart], in different individual cities. There is Brownwood, Tex.—

The CHAIRMAN (interposing). That is only about 700 miles from where I live.

Mr. HENDERSON. And Burlington, Iowa. We staked out 360 of those areas and made a determination that rents ought to be controlled, and I know the situation of shortage so that we are going to have at least 15 major programs on rationing.

Now, we have made those determinations; we have made those actual determinations. Now, unless I am a better administrator than I think I am, unless my force has been wasting their time and doodling and dawdling and wasting the Government's money and time, we have got to cut back, and what in effect it says is that when we cut back, not that I was wrong, that prices were likely to go up, or not that I was wrong that rents were likely to go up, or not that I was wrong that we were going to have 15 major rationing programs, but that right at the time when we are building an organization and trying to get down to places where the local boards can handle the stuff, we change the national policy.

The policy says, "You can make your declarations, but as far as inspectors are concerned, to see that the laws are complied with, we will call those fellows snoopers."

Now they don't call the people that enforce an alcoholic tax law a snooper, or they don't call the income-tax people snoopers, or the wage-and-hour people snoopers, but they call my people snoopers

because we undertook to enforce something which is of drastic and important interest.

That is the second reason why we can fall down, because there is no way of running a voluntary enforcement program when you are just simply trying to hold somebody down where, in many cases it means that he goes out of business because the price isn't sufficient to compensate for a reduced volume of goods that is going to be delivered to him by this system.

The CHAIRMAN. Now, Mr. Henderson, we would like to impose on you further. Mr. Halleck is not here; he had to leave on account of a meeting of the Rules Committee of which he is a member, and I think he probably wanted to ask you some questions. Also I have some. And we would like to work out a date sometime in the next few days that will be convenient for you, and ask you to come back again. Will that be agreeable.

Mr. HENDERSON. Certainly. Could I put in another word or so?

The CHAIRMAN. Yes, sir.

Mr. HENDERSON. I have found, in recent weeks, that if you undertake to make things plain you are sometimes accused of criticizing Congress. Now, nobody has been more interested in the maintenance of a free and strong legislature than I have, and I think the way you really maintain that in a time of emergency when things are creeping up on you that ought to scare the hell out of you, is talking plainly; and if it means that I get my throat cut for talking plainly, I would rather have it cut for that reason than to be apologizing to all the people who are saying, "What were you doing back there when you knew all these things?"

Mr. KELLY. Mr. Henderson, in closing I just want to ask a question for the purpose of settling an argument I had in Chicago with regard to the purchase of a new automobile tire—and that is away from the hearings here today. A person must have a certificate, isn't that so?

Mr. HENDERSON. Yes.

Mr. KELLY. Now for a re-tread on a tire you have to have a certificate likewise, do you not?

Mr. HENDERSON. That is right, from your local board.

Mr. KELLY. And if a tire is sold without those certificates, that man is selling those tires illegally, isn't he?

Mr. HENDERSON. Yes.

Mr. KELLY. That is all I wanted to know.

The CHAIRMAN. Thank you, Mr. Henderson. We will make arrangements to have you before us at some convenient time.

(Whereupon, at 12:15 p. m., the committee adjourned, subject to the call of the Chair.)

SMALL BUSINESS IN THE UNITED STATES

THURSDAY, SEPTEMBER 24, 1942

HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE TO CONDUCT A STUDY AND
INVESTIGATION OF THE NATIONAL DEFENSE
PROGRAM IN ITS RELATION TO SMALL BUSINESS IN
THE UNITED STATES,
Washington, D. C.

The select committee met, pursuant to notice, at 10:30 a. m., in the caucus room, Old House Office Building, Hon. Wright Patman (chairman), presiding.

Present: Representatives Patman (Texas), chairman; Bulwinkle (North Carolina), Fitzgerald (Connecticut), Halleck (Indiana), Hall (New York), and Ploeser (Missouri).

The CHAIRMAN. The committee will come to order.

We have with us this morning, Mr. Lou E. Holland, chairman of the Smaller War Plants Corporation, which was set up and organized by reason of the passage of a bill in Congress authorizing it. The bill, of course was sponsored by the Small Business Committee of the House and the Small Business Committee of the Senate.

It is my understanding that Mr. Holland has reached a point in his investigation and research, so that he is going to make a statement about his future plans. We will be delighted to hear from Mr. Holland this morning.

Suppose you give your name and official position to the reporter.

STATEMENT OF LOU E. HOLLAND, CHAIRMAN, SMALLER WAR PLANTS CORPORATION

Mr. HOLLAND. Lou E. Holland.

The CHAIRMAN. Mr. Holland, you are Chairman of the Smaller War Plants Corporation?

Mr. HOLLAND. Yes, sir.

The CHAIRMAN. Have you got your organization perfected and ready to start to work?

Mr. HOLLAND. No; it is not perfected and ready to start to work, Mr. Chairman. It is rapidly being perfected.

The CHAIRMAN. I believe the law was signed by the President about the 11th day of June, was it not?

Mr. HOLLAND. I don't know. I never heard of that law until Mr. Nelson asked me to come over here and take part in the administration of it.

The CHAIRMAN. You are a resident of Kansas City, are you not?

Mr. HOLLAND. Yes, sir.

The CHAIRMAN. What was your business before you came here?

Mr. HOLLAND. I am president of the Holland Engraving Co. and president of the W. O. Sprinkler Co. and I am president of the Holland Corporation. They are all small concerns. The engraving company is a photoengraving company.

The Holland Corporation manufactures electrical etching machines.

The CHAIRMAN. You have had some experience in getting contracts for small business with the Army and Navy before Mr. Nelson asked you to come over?

Mr. HOLLAND. Yes. Two years ago last July there was organized in the Middle West, incorporated a nonprofit corporation, the Mid-Southeast Research Board. The directors of that corporation were the mayors of the western half of Missouri and the entire State of Kansas.

They pulled me in as president of that organization. That was a fact-finding organization only.

It was the idea of the mayors in the Midwest, after they had read the President's program for defense, that the Midwest had better be ready and know exactly what facilities they had to help in the program, and I proceeded to produce those facts. I sent out 15,000 questionnaires and had a first-hand picture of every business in those two States. That material was available here in Washington.

Then about a year later in July 1941, when I saw priorities coming, and saw that the little fellows who are not capable of taking contracts themselves, prime contracts themselves, prime contracts, and with the priorities, I saw that it would be impossible for them to obtain materials. Then I saw that they were going to pass out of the picture and I called a small group of them together and I asked them to consider the formation of a group, a corporation of a group of them. I said, "Individually you cannot handle a Government contract."

The CHAIRMAN. You mean to assume the role of a prime contractor through cooperative effort?

Mr. HOLLAND. That is right. So they appointed a committee of five and then I called another group and they appointed a committee of five and they both reported favorably and they organized such a corporation and they called it the Mid-Central Associated Defense Industries.

I think there were 32 concerns.

Mr. BULWINKLE. What was the nature of those concerns; what kind of concerns?

Mr. HOLLAND. We had a steel foundry, we had two glass foundries, aluminum and glass foundries, we had a pattern-maker, we had machine shops, we had a woodworking shop, box manufacturer, we had a tool and die shop, we had a diversified group that really could handle most any kind of a contract that they would come in contact with.

Shortly after that we received an invitation to bid on some sights for the Navy. It is a restricted item. I signed for the blueprints. After I looked the blueprints over, I determined it was something that our group really could make if they got down to serious business, and so I sent for one of the members of the group who was an engineer. He and I went over the blueprints together. As a result of that, we called 15 of them in, picked out the 15 fellows that really could do this work. We sat around a table until nearly midnight going over these blueprints and talking over who could best do certain parts, and who

had the most efficient equipment for making certain parts of it. We worked for about 8 days, getting our bids together and we bid on the contract and we got it. It was handled very successfully. We got some repeat orders. The contract was finished 2 months ahead of schedule, showing that it can be done by these small groups.

If I were doing it over again, I wouldn't organize it just that way.

The CHAIRMAN. You have the benefit of that experience in starting out.

Mr. HOLLAND. I have the benefit of that experience. For instance, we had 32 concerns in the pool, and we could only use 16 and I think that the proper way to handle a group is to first find out what the item is that you are to manufacture and then put a group together that is capable of doing that. Get just the fellows that you want.

Mr. HALLECK. Will you—will they give you the contract until you show that you have the group?

Mr. HOLLAND. I think, under this arrangement, sir, and that is why I have taken so much time—I think under this arrangement we can pick up the items we know can be manufactured by small concerns, and we have the service of all of the facilities, and we know the management of the concerns, we know their personnel and if we can find an item here that can be made by small concerns, and we know there is a so-called distress area in possibly your part of the country, or yours or something else, and we have got the equipment, we can put the machinery together to make this particular item.

Mr. HALLECK. Isn't it true that the contract distribution offices over the country pretty much found out the available small plants that were not being used?

Mr. HOLLAND. Oh, yes.

Mr. HALLECK. And that information is at hand.

Mr. HOLLAND. Yes, sir.

Mr. HALLECK. Haven't you taken over those offices?

Mr. HOLLAND. Yes, sir.

The CHAIRMAN. Would you like to make a statement, first?

Mr. HOLLAND. Yes; I would just like to make a statement and then let you gentlemen ask me any questions that you want.

The CHAIRMAN. All right. Go right ahead and make your general statement.

Mr. HOLLAND. I know from the care which was exercised by you gentlemen in drawing this bill, the number of hearings that you held and the length of time that was consumed in getting it through that you were very careful in your deliberations and tried to get something that would work and really do this job among small industries.

One, Mr. Nelson called me over here first on June 29 and asked me to assume this responsibility. I naturally did not want it. I shied away from it. He was very insistent. He said that he thought I could do this job.

I considered it for about 10 days before I gave him my final answer and he told me that he would give me his 100-percent cooperation, that I could set up my own organization to do this job, that he would not interfere, that I could hire and fire whom I wanted, that this must succeed.

He said, "It has failed up until now and it must not fail again."

He said, "If it does fail, it is a reflection on me, it is a reflection on you, it must not fail, and I want you to take this job."

I took it; I stayed here for about 10 days and reviewed what had gone on in the past. I visited the Office of Contract Distribution; I tried to learn all that I could about what had gone on.

Then I asked Mr. Nelson to call a meeting in his office which he did. In that meeting, Secretary Patterson; Secretary Forrestal; Mr. Frank Fulson; Brigadier General Harrison; Admiral Robinson; Captain Buck; Colonel Rockwell; Mr. Walsh, of the Maritime Commission; Mr. Jesse Jones and John Snyder; Mr. Nelson; Phillip McGuire; and myself. We talked over this legislation, and I told these gentlemen, Mr. Nelson had asked me to administer the act and that, inasmuch as I had no procurement powers, my first step was to get the attitude of these chiefs of all the procurement branches of the United States, because, if you gentlemen are going to give me your 100 per cent cooperation, it will put work right down the line to the last procurement officer, and we can make this act succeed; without your cooperation, we cannot make it succeed.

I stated, "That is why I called you together, to see what your attitude is going to be, because I am frank to tell you that I would much prefer to be at my home in the Middle West than I would be to be here in Washington; but there is a job to be done. With your cooperation, I can do the job and without your cooperation, I won't attempt it."

They all said they would cooperate. I said, "This is a big job. In order that everyone will understand just what we are attempting to do, I would like each of you—the Army, the Navy, the Maritime Commission—to appoint a capable man who will sit down with me and take as long as is necessary to build an over-all plan under which we can operate and which will be understood by every procurement officer and all department heads."

I said, "If you do that, I think we can get some place. It is going to be a big job. It is the biggest job we have ahead of us. It is better than planning any plant we are thinking of building in America, because there are thousands, hundreds of thousands of people, who are being affected. Every type of business is being affected and, to outline a general plan that will do the maximum amount of good under this bill has got to be given doggone careful thought."

Each agreed to give me a hand and they did. We went in session the following Monday morning at 10 o'clock.

Mr. HALLECK. When was this, as to date?

The CHAIRMAN. It must have been about July 4.

Mr. HOLLAND. Oh no, no. No; because there was no one here on the committee until July 10, I think, so it must have been along the 20th of July, some place in there. I know I had been here about 10 days surveying the situation.

The CHAIRMAN. What was the date of signing this bill?

Mr. BULWINKLE. The 11th.

He was here the last of June, went home for 10 days, came back and was here 10 days.

The CHAIRMAN. Along about the latter part of July?

Mr. HOLLAND. The latter part of July. After we had been in session some 2 or 3 days, Mr. Nelson gave a cocktail party for Sir Robert Sinclair at the Mayflower one night, and I was invited to attend.

Nelson, in introducing me, said to Sinclair that I had been brought in here to handle the small-business activities.

Sinclair was very much interested and he said that they had done a great job with small business on the other side. He said, "They are just indispensable to our efforts" so I asked Sir Robert if anyone in Washington could give me a first-hand picture of the way they had handled the small-business enterprises on the other side of the water, and he said, "No. There is nobody in Washington who can give you that, but I will tell you what I will do. I will cable Littleton and ask Littleton if he will not send somebody over to confer with you on it."

Three days afterward, he called me on the phone and said he had cabled Littleton and that Littleton was sending Headley Williams over and that he would arrive on the clipper in some 3 or 4 days.

Headley Williams came here and he sat with our committee on different occasions and he was most valuable to us because they have gone through all of the headaches that we are now enjoying and while their condition is somewhat different than ours in that they have all of their shops busy and they have a scarcity of labor and are now working women in their plants, and training them very rapidly, the only reservoir of labor that they have that they can draw on is the women in the homes, whom they are working $4\frac{1}{2}$ days a week.

Williams left here 2 weeks ago, so we have gone very carefully into every phase of this program. We know pretty well what our approach is going to be and we agreed to handle it this way, gentlemen, that after we had deliberated and formulated a plan, we would put that down on paper and then it would be submitted to Admiral Land and General Somervell and Admiral Robinson because these men were their appointees and they could only act and use their better judgment and whatever they did had to have the approval of their chiefs.

After we had their comments and had their approval, why I wanted to submit the thing to Mr. Nelson and to make it public and say, "Here is the plan. It is in that stage right now. It has gone to the gentlemen I referred to there for their review. In the meantime, I am getting a personnel together and I am getting key men who are thoroughly experienced men and I am impressing upon the field organizations that we must have men in the field who have had actual shop experience, fellows who really have had grease on their hands, because there is no need of putting work into these small shops and saying, 'there it is, take it over.'"

They will fail if they do that. You have to go into their shops, check their machines, get them working to precision, first, and then you have to instruct them how to make this highly precision work for the Army and Navy. Once you do give them that instruction, they can do it just as good as anybody and so it means a terrible job, getting a personnel who is capable of instructing these men and it means, also that the people that we have on our staff in Washington must be men who know these items just as well as the procurement officers do, themselves, and better, if anything, because then they can talk to them intelligently and will gain their confidence.

The CHAIRMAN. Mr. Holland, have you finished your general statement?

Mr. HOLLAND. Yes.

The CHAIRMAN. I want to ask you just a few questions.

Have you been satisfied with the cooperation you have received?

Mr. HOLLAND. There are some things that I did not anticipate. You ask me if I am satisfied with the cooperation I am receiving from

Mr. Nelson. I will say that Mr. Nelson told me that he would cooperate 100 percent; that he did not mean anything else, and I don't believe he did and I am glad to tell you that he has.

The CHAIRMAN. You are satisfied with the cooperation you have received from the War Production Board and Mr. Nelson, in particular?

Mr. HOLLAND. From Mr. Nelson.

The CHAIRMAN. Hasn't the War Production Board cooperated, too?

Mr. HOLLAND. There are some things about this, gentlemen, that I did not know, and while I was reluctant to take the job, I took it and I am going to see it through and it is going to succeed, I will tell you that.

For instance, when I had been here a few days, I knew that I had to have a personnel man. I knew one in the Middle West whom I had a very high regard for. I knew he was going back into the service, and I called him on the phone and asked if it would be satisfactory to him if I had him deferred for a couple of months, simply to help me select some men down here; it was agreeable so I tried to get that through and I was told, because this man had legal experience, he was a lawyer, and he could not be employed.

The CHAIRMAN. I ran into that same thing on something.

Mr. HALLECK. Why could not he be employed?

For what reason? Civil Service?

Mr. HOLLAND. No. They said—

Mr. HALL. When you say "they," whom do you mean? You say "they told me he could not be employed."

Mr. HOLLAND. Albert Haas was assigned to me by John Lord O'Brien's office, who is General Counsel for the War Production Board and I turned this matter over to Haas. I said, "Al, I would like to get this fellow and get him right away. I have talked to him on the telephone and he would be willing to come. I will have to have him deferred right away for 2 months."

I gave it to him on Thursday morning. The fellow was starting for the Army on Saturday and I thought it was rather a simple matter that would be taken care of. Friday night they came back and said, "You cannot have this fellow. He has had legal training. He is a lawyer."

The CHAIRMAN. Did you ever get him approved?

Mr. HOLLAND. Oh, no.

The CHAIRMAN. Never did.

Mr. HOLLAND. No.

The CHAIRMAN. I had a case exactly like that in the regional office at Dallas, Tex., where a very high type gentleman was willing to take a job. He did not ask for it but he was sought by the regional management.

He was in the Finance Division, one of the top positions and because he had been a lawyer and was registered as a lawyer, he was turned down up here.

I looked into it carefully and I discovered that there was a ruling emanating from Mr. John Lord O'Brien's office to the effect that one who was a lawyer was not qualified for certain positions because it was possible that they would attempt to use their legal training and legal ability in furtherance of their work, and would come in contact with the authorized legal set-ups.

The reasoning did not appeal to me particularly and I protested against it and it happened that this fellow had really quit the law practice and they approved him, but I assume, if he had not abandoned the law practice, he would have not been approved.

That is something I cannot understand.

You say that your man was absolutely turned down on that account?

Mr. HOLLAND. Yes.

The CHAIRMAN. Do you feel that that has retarded you in your efforts to get the organization moving?

Mr. HOLLAND. Naturally that threw me behind, because here was a fellow that was all set to go in and start getting personnel together for me while I was busy working out these things with the Army and the Navy and the various procurement offices, don't you see?

The CHAIRMAN. That is the first bottleneck that you ran into that really impeded your progress?

Mr. HOLLAND. Yes.

Mr. FITZGERALD. Who refused to defer him, Selective Service Board?

Mr. HOLLAND. Oh, no. It never got that far.

Mr. HALLECK. Mr. Chairman, I wonder if your information as to the reasons for not permitting a man with legal training to take on one of these job, is correct?

The CHAIRMAN. Does that coincide with your information?

Mr. HALLECK. I was given a typewritten sheet which dated back some months and I was told that, in order to facilitate things at War Production Board and keep all of the legal matters in the hands of the General Counsel, it was decided that any lawyers that were connected in any way with War Production Board would have to be approved by them, you see.

The CHAIRMAN. Yes; I ran into that.

Mr. HOLLAND. Of course, it was too late for me to do anything. It was on Friday night, and the man was going into service on Saturday, so there wasn't a thing I could do about it. So I did not get him.

The next thing that held me back a little bit—

Mr. HALLECK. Before we leave this, Mr. Chairman, this is the first information I ever heard of that, but I know a lot of top-ranking executives in the country, business people who have had legal training, maybe started out as lawyers, and it would seem to me a little ridiculous that a man be barred from taking on an executive or personnel job just because he might, in the past, have had some legal training.

Mr. HOLLAND. It was a little disappointment to me.

The next thing that I ran into—it is very necessary, gentlemen, to do this job to have very good top-notch, trained mechanics on your staff and in the field. The United States is so big, we have so many offices and so many branch offices, it is going to take a large number of men.

The CHAIRMAN. You have about 60 or 70 branch offices? Don't you?

Mr. HOLLAND. Far more than that. I thought I would like to round up some mechanics. I know the kind of people that it takes to do this job. I served 5 years and 3 months apprenticeship as a machinist and I left it as a tool maker, and I know what is required and I know the reason that subcontracting has failed.

I have known the reason why the little fellow cannot do the job.

So, in order to get this thing working, the way you intended it to work, I have tried to set the thing up intelligently and with men who will make it work. The type of fellows I want are not laying around loose and are not looking for jobs. They are in demand right at this minute, so I prepared an ad that I wanted to run in about 25 newspapers throughout the United States.

I wanted to get trained mechanics, men who could read blueprints, men who could go into shops, small shops, and give instruction on how to do close-precision work.

I said to reply to the Smaller War Plants Corporation, and I thought the ad was going to appear in the Sunday paper. I need about 300 of these men, gentlemen. I need about 300 of them. The ad did not appear. They came back and said, "You are on civil service and we won't run that ad for you. You have to select your men from civil service."

I said, "They do not have the men I want in civil service. These fellows are all busy. How am I going to get them?"

So please don't think I have been tardy in setting this up. I have had a heck of a job. I am working it out with the Procurement Office of the United States Government.

Mr. BULWINKLE. Right at that place, we can easily provide an amendment to this act and it would be passed pretty quickly.

The CHAIRMAN. I don't think there would be any objection to it, and it would eliminate that objection No. 2.

Mr. BULWINKLE. The only thing is, if you had come to us we could probably have remedied that long before now.

Mr. HALLECK. As I understand it—and I have been in some of these contract distribution offices—and I have talked to the men who managed them, and I think they are capable; but a long time ago, they said exactly the same thing you are saying now, which is that you have to have trained, experienced, competent fellows working out of that office to go out and look these smaller plants over and help these people in those smaller plants determine the sort of a job they can do, whether they are qualified to do it, and, too, assuming that they are qualified, help them to get started in that direction.

My information has been that the presence in these distribution offices of competent, trained men, trained along that line, has been most helpful in the more-or-less voluntary, individual effort that has contributed so much from the small plants to the war effort so far.

Mr. HOLLAND. No question about it.

The CHAIRMAN. Let's get right down to the cause of this thing.

Who told you this would have to be in civil service?

Mr. HOLLAND. I found, through Mr. Robinson's office—

The CHAIRMAN. Mr. Robinson. Is he with the Maritime?

Mr. HOLLAND. Mr. Robinson, I think, is the Chief Administrator Officer of the War Production Board.

The CHAIRMAN. Chief Administrator Officer?

Mr. HOLLAND. I do not know. Do you know Mr. Robinson's title over there?

A VOICE. I believe that is the right title.

Mr. HOLLAND. A very delightful fellow.

The CHAIRMAN. And you dealt with him?

Mr. HOLLAND. No; just a minute, Congressman. I asked Mr. Robinson for a good man to help me in getting some personnel together and getting this thing going.

The CHAIRMAN. That is after you failed to get the man of your choice?

Mr. HOLLAND. Yes; there was a boy by the name of Ralph Jones in his office, whom I was very favorably impressed with and I asked Mr. Robinson if I could have Ralph Jones. He said, "I won't let you have him permanently, but I will tell you what I will do; I will loan him to you to help you get going."

This boy was very valuable and he knew a lot of the things that were going on over there and it was to him that I turned over the advertisement, and asked him to get it run.

He went away thinking that was swell, and it was going to get a reaction. Then he came back and said, "No, we can't run any advertisement."

Mr. BULWINKLE. That is correct.

Mr. HOLLAND. It was correct.

The CHAIRMAN. It is doubtless correct.

Mr. HOLLAND. I am not citing these things as complaints, you understand. I am not complaining about John Lord O'Brien's office saying I couldn't have this man and I am not complaining about the civil service if that is the situation; I am just saying that I, a little boy from the bush league, did not know these things when I came in here.

The CHAIRMAN. I am complaining about that, and I think you should complain about this civil-service business in particular, because you cannot operate this way.

Mr. HOLLAND. Since then three men have come over from the civil service and I have explained to them how it was absolutely impossible for me to run through civil-service lists and get the type of men that I wanted.

For instance, I have Frank Smith with me. Frank Smith has been manager and production man for Bill Stout for the past 10 years. I arranged with Mr. Stout to have Frank for the duration. He is one of the finest engineers there are in the United States, one of the best-advised men on aircraft.

When you get hold of a man like that, he always knows from one to a dozen other fellows who should be in the picture, don't you see? That is the type of fellow that we have to have.

You run up against civil service and they say, "You can't have them."

So, I got three men over from the civil service and I explained the situation to them. They were very nice and they said, "When you run into these cases, just let us know and we will make an exception, and you can have those fellows."

The CHAIRMAN. And they can grant special dispensation, if they desire?

Mr. BULWINKLE. A temporary arrangement.

Mr. HOLLAND. They are doing that. There is no complaint; there is cooperation there, but all those things tend to throw you back and delay you.

The CHAIRMAN. Do you feel that the problem has been entirely solved?

Are you satisfied now?

Mr. BULWINKLE. Just a minute, Mr. Chairman. Before he answers that, let's see what other bottlenecks or trouble he runs into. He has given two of them.

The CHAIRMAN. That is right. We will put that down as No. 2, and unless there is some question about that one further, we will let you go ahead to No. 3.

Mr. HOLLAND. I am not complaining. I have taken a lot of time to work this thing out in connection with the procurement agencies, because, unless the procurement agencies themselves are in favor of this program, it could never succeed because there are too many angles to it, there are too many things that could be done, if they were not wholeheartedly behind you.

For instance, all of the work that is made in these small plants is subject to inspection just the same as it is in large plants.

The CHAIRMAN. But, Mr. Holland, I think we are more concerned in getting started, are we not? Here are 3½ months. We were told before we passed this law if we did not pass it immediately—it was urgent—that tens of thousands of small businesses would have to go out of business almost immediately and that was about 4 months ago. We passed the law about 3½ months ago, and up to now it is a fact that not one single contract has been let under the law.

Mr. HOLLAND. Oh, I would not say that.

The CHAIRMAN. Have you actually let contracts go?

Mr. BULWINKLE. Let me ask you this, has Mr. Nelson reported to the Congress under section 5 of the act?

Mr. HOLLAND. Yes. Sixty days after the law was passed.

Mr. BULWINKLE. Those contracts, we should get them.

The CHAIRMAN. The report had no contracts the way I understood it.

Mr. HOLLAND. That was the first 60 days.

The CHAIRMAN. But what progress have you made since then?

Mr. HOLLAND. Congressman, until we get a thorough understanding and agreement with the procurement agencies, I am not pushing for contracts.

The CHAIRMAN. You are not pushing for contracts?

Mr. HOLLAND. No. In the first place, I do not have my field organization set up the way that I want it to make this thing work right in the field. I don't have all of the personnel that I want here in Washington to contact these agencies, and there are a lot of things that must be worked out.

For instance, under your old set-up with the War Production Board, everybody was contacting procurement agencies. That is unbusiness-like. You can't do it that way. You have to establish a relationship with somebody who is recognized as the proper man to contact on these things and let that be their business.

Mr. FITZGERALD. Mr. Holland, when these offices were first set up, that was what the small businessman was told to do, to contact, and all he has been doing is going around on a merry-go-round for the last 2 years, and we are no further now, from what I hear, and we will not be, until the procurement offices cooperate and break up these large contracts and give the little fellow a bit of it.

Mr. HOLLAND. I think I understand your language because I made 19 trips to Washington on behalf of small industries, and I know something about it.

Mr. FITZGERALD. I know the tossing-around some of them got in the State of Connecticut, and I know—just as you say—that there are plenty of fine, able men on this committee. I made a report to this committee over 4 or 5 months ago along the same lines that you suggested in setting up this organization—that we have to have practical men who had their fingers in the dough, and engineers to go into these small plants to guide them and encourage them.

I saw some of this precision work that the War Production Board had that the Army and Navy had set up on a desk. In the case of the ordinary fellow, a mechanic who came up the line and started a little shop and made it himself, you might as well hand him a Chinese journal as hand him a blueprint. He cannot read it, but he can make it if you put some brains there to help him do it.

We told them that 6 months ago, and we find today we are where we started from, and you will not get anywhere until the Army and Navy starts to break up those big contracts and gives the little fellow an opportunity to make it.

You can form all the organizations, in my opinion, and it won't happen until the Army and Navy break up that combination that they have down there and give the little fellow a chance to get into this picture and make some of it.

When you do, you will get all that you need if we use the small shops that are in this country.

The CHAIRMAN. Suppose you tell us more about your problem, Mr. Holland. Personally, I am disappointed because more has not been done. I am sure, from what you say, that you have made every effort to get things done and your background impresses me very much. It occurs to me you are the very man for the place, and there must be some good reason why more progress has not been made.

Mr. HOLLAND. Congressman, I am amazed at the progress that has been made.

Mr. HALLECK. You mean, in your particular division, generally?

Mr. HOLLAND. Absolutely, absolutely; because we have changed the thinking entirely of the Army, Navy, and Maritime Commission.

Mr. HALL. Do you feel that you are operating now?

Mr. HOLLAND. We might say that we are operating in a small way. I just returned this morning from a meeting out in the field.

The only memorandum I have comes from Frank Smith, which I found this morning on my desk and he says [reading]:

We have done quite a little work in an engineering way, in aiding the different plants to convert their machinery and production lines to the manufacture of different types of war work, especially in the jewelry trade in the Attleboro and Providence areas. We selected 5 outstanding men from this group and since September 8—the day we got our directive—we have been able to place with 7 small concerns between Keene, N. H., and Newton, Conn., \$2,000,000 worth of work. With 6 concerns near Louisville \$2,110,000 worth of work has been placed and with 21 small concerns in and around Oklahoma, \$125,000 worth a month, to extend over a period of a year.

It is just getting started. I have been away for a week out in the field and we are just getting together.

Mind you this, we did not have our administrative order, until 2 weeks ago.

The CHAIRMAN. What do you mean by administrative order?

Mr. HOLLAND. You enacted a bill over here. The chairman of the War Production Board sends out an administrative order which is

a directive with authorization of the appointment of a deputy chairman and tells what his duties are going to be under the chairman.

There were several copies of that administrative order drawn. Several of them were not acceptable to me because it was impossible to carry out the intent of your bill in the way these orders were drawn and so it was September 8 when we got this administrative order and it is quite satisfactory.

The CHAIRMAN. Why the delay, though, so long?

Mr. BULWINKLE. That is just about a month, a little over a month and he had two or three before that that did not suit him.

Mr. HOLLAND. I think, all told, I had six or eight.

Mr. BULWINKLE. Six or eight to go over.

Mr. HOLLAND. And we had to do a lot of work on that.

Mr. HALL. Could you not let a contractor obtain a contract before you got that directive?

Mr. HOLLAND. I don't think so.

The CHAIRMAN. September 8 is the earliest time you could have made a contract?

Mr. HOLLAND. However, listen, gentlemen; understand I did not have any field organization.

The CHAIRMAN. Did you not take over the contract distribution sections?

Mr. HOLLAND. Never, until I got the administrative order.

The CHAIRMAN. On September 8?

Mr. HOLLAND. Yes.

The CHAIRMAN. Well, I cannot understand why that order was delayed so long. The law is very plain and why should not the directive be in accordance with the law?

Mr. HOLLAND. Let me show you, Congressman, why. War Production Board has set up a little miniature War Production Board in each one of the Federal Reserve districts throughout the country.

The CHAIRMAN. Thirteen or 12.

Mr. HOLLAND. In that they have the work all divided up. They have priorities, and O. P. A. and all Government functions there, and over in here they have the contract distribution.

In some cases they changed that to Production Department, I think; something like that. Changed it from Contract Distribution.

Then they had an office here in Washington where they had 172 employees in it and they had a financial bureau, which was set up over the country with a lot of employees in it. I think they had a pay roll in this local office of contract distributor of \$489,000 and one in financial distribution of \$303,000, if I remember correctly.

The first administrative order that they brought to me said that the Office of Contract Distribution and the Bureau of Finance were hereby transferred to the deputy chairman.

Those offices had failed ever since they had started this job.

Mr. BULWINKLE. They did not have the proper personnel?

Mr. HOLLAND. They did not have the proper personnel, and they did not have proper direction, we will say. They did not have proper understanding. They did the best they could, but I was not going to assume the responsibility of somebody's set-up, somebody else's set-up that had failed on this thing. I wanted an organization that was going to do this job and so I changed that directive to read that these departments "are hereby abolished and their functions are taken over by the deputy chairman."

Mr. HALLACK. Of course, you understand that is a rather unusual thing around here.

Mr. HOLLAND. I do understand it, but I made it stick.

Mr. HALLECK. I am glad you did.

The CHAIRMAN. You just abolished the personnel, not the functions?

Mr. HOLLAND. Not the functions.

Now the order reads [reading]:

The Bureau of Finance and the Contract Distribution Branch of the Office of the Director General for Operations are hereby abolished, effective as to the close of business September 15, 1942, and their functions and records transferred to the Smaller War Plants Division together with the facilities, records formerly maintained by the Contract Distribution Branch now in the custody of the Facilities Branch.

If you gentlemen want to know how I handled that thing, I had four men, two of them in the office that I had confidence in, two of them who had acted as consultants in the department. I asked them who the outstanding men were who had the sort of experience that we were looking for.

I said, "I don't want to miss a one of them, but I don't want a group of fellows who do not know what this problem is, or cannot do anything good for us."

So, I got the lists from four men; I laid these lists down.

When I got through, I had seven men whom they had all agreed on as outstanding men. I figured if four independent fellows all agreed on these seven men, they must be all right.

The CHAIRMAN. Seven out of how many?

Mr. HOLLAND. Out of the whole group. I was looking over their engineers, though, at the present time.

The CHAIRMAN. Would the whole group be 50 or 100?

Mr. HOLLAND. One hundred seventy-two.

The CHAIRMAN. One hundred seventy-two, and only 7 of them—

Mr. BULWINKLE (interposing). A lot of them were stenographers.

Mr. HOLLAND. Stenographers that I was not asking for at all. I was looking at this time for qualified engineers who could do this job which you want done.

The CHAIRMAN. Pardon me. Go right ahead.

Mr. HOLLAND. Then I went over the list with Beverly Murphy and he had combed it very carefully and we went over every one that was in there and in addition to the seven I had, I picked out five more to look over. Then I sent for their records to look over the records and I immediately had to eliminate three of them, because I am a little fussy about that, too. I am determined that anybody I have associated with me, you can shoot at them any time and know that, aside from knowing their business, they are good citizens.

Mr. HALL. You picked seven. How many of these engineers were connected with the branch offices?

Mr. HOLLAND. In the branch offices they have many hundreds. I was talking about this Washington office.

Mr. HALL. How many engineers were in the Washington office, of which you picked seven?

Mr. HOLLAND. I don't know how many there were in there.

Mr. HALL. Would you say 10 or 15?

Mr. HOLLAND. Oh, more than that. I would guess about 27, or something like that.

Then I took over the facilities' records and the critical tools' records, all the records they had there, and I took the two top keymen that were running those records, and whatever stenographic help that they needed to do it, and that is what we have out of contract distribution.

As a matter of fact, they came over to me in my absence, and I have not met with them yet, as a group. They are over there now in the Raleigh Hotel.

The CHAIRMAN. To my mind you brought up the main point in the beginning, when you said it was absolutely necessary to have 100-percent cooperation of the procurement officers. I think you are exactly right about that.

Now, what assurance have you, from these procurement officers, except their word, of 100-percent cooperation, which is a fine phrase, but have they promised and agreed that they will notify you in advance of the things they expect to buy so as to give you and the people you represent an opportunity to provide them?

Mr. HOLLAND. Congressman, can I answer that this way? Until I see the final, the very last communication regarding this program, I do not want to say too much about it, because I do want it in accord with all of the procurement agencies.

But, may I say this: the Treasury Department, who is a very large procurement agency, has been to me and has told me that they will call me in, and that they will break down their orders in any way I suggest, to see that it is spread out.

The CHAIRMAN. That is the Treasury?

Mr. HOLLAND. Yes.

The CHAIRMAN. All right. Have they actually done that? Now, they are asking for bids every day.

Mr. HOLLAND. I know it.

The CHAIRMAN. Have they done it at all?

Mr. HOLLAND. I have not asked them, sir. I have not been set up to function. I have not been set up in the field.

I have visited three of the district offices. I have to go to nine more. I have to go out on the Pacific coast.

The CHAIRMAN. You are not in a position to receive that cooperation?

Mr. HOLLAND. No, sir.

Now, understand, I am on a spot in this job in this way: If I tell a procurement officer that I can handle a job and he gives me a job and if we fall down, this thing has blown up. We are not going to fall down and I am not going to go off half-cocked and just for the sake of getting an order, put it down in Dallas, Tex., we will say, unless I know what the set-up is in Dallas and they can positively do this work.

The CHAIRMAN. The principal complaint I have from these procurement officers—and I have visited some of them, and I think they had a marvelous set of books, every one of them, card indexes, they had the finest set of books I have ever seen, and I think you inherited something worthwhile when you got those offices, but the principal complaint was that they would get a notice which they could send out to the people who would be qualified to bid, too late to enable the people who could bid to put in their bids.

In other words, they would get it one day and the bid would have to be in the next and they would just make it impossible for these smaller concerns to bid.

Have you run into that, Mr. Holland?

Mr. HOLLAND. Hundreds of times.

The CHAIRMAN. What has been done to correct that? Have you any positive assurance and promise from these procurement officers that they will give you time—that they will let you know in advance what is to be bought and give you plenty of time to circulate the information so that the proper people can make their bids?

Mr. HOLLAND. Congressman, let me tell you this: I have not told you what this plan is, because I want it to come from the procurement officers themselves. When it is finally adopted it will be their plan, not my plan. It will be their plan, and if it does not work, you are going to be able to put your finger right on the very spot that prevents it from working.

One of the agencies—please don't ask me which one—has said, "We will not let a single contract until you come in. Your men come in and go over these—over the shop and select the items that you want made by smaller concerns and then we will let the contract on the balance."

The CHAIRMAN. And they will give you plenty of time to do that, I presume? That carries with it that promise?

Mr. HOLLAND. Yes.

The CHAIRMAN. Up to date, you have not been able to get one single prime contract. You haven't been at all in a position?

Mr. HOLLAND. I have not been in a position. This memorandum that I just read you has been done, and it was done at my offices.

The CHAIRMAN. Therefore you have not been able to use any of the money provided?

Mr. BULWINKLE. There are two things necessary; first, that you have 100 percent efficient, able personnel?

Mr. HOLLAND. Yes, sir.

Mr. BULWINKLE. That is what you need, you have to have it?

Mr. HOLLAND. Yes.

Mr. BULWINKLE. And that is the main part that you are up against. The other will have to be all right because, from all indications you will have the full cooperation.

Mr. HOLLAND. Here is another thing that enters into it. Bear in mind that I am trying to surround myself with the topnotch men of the country. I cannot get very many Frank Smiths, and we are limited on what we can pay the men. A lot of them are in industry now, getting big wages, and they won't leave that job and come to Washington for us for \$4,000 or \$5,000 a year if they can get \$10,000 a year some place else.

That is perfectly natural.

Mr. FITZGERALD. Would it not be cheaper, Mr. Holland, to pay those men as much money as they receive in private industry, and get rid of these \$1-a-year fellows who have been down here for a couple of years? That has been my opinion, pay for what you get, because it will be cheaper in the end.

Mr. BULWINKLE. You have to attack the appropriate committee on that, too.

Mr. HALLECK. This is not a matter of rebuttal, but I think a lot of these \$1-a-year men have done a good job, and I think there are many other spots that are much more blamable than some of the dollar-a-year men.

Mr. BULWINKLE. I do, too.

The CHAIRMAN. I am not making any blanket indictment against them.

Mr. BULWINKLE. May I make a suggestion? Since we know about as much as Mr. Holland is able to tell us, that you draw an amendment to this act so that he can select his mechanics and other people, his personnel?

The CHAIRMAN. Let us see if he has other problems that can be dealt with at the same time.

Mr. BULWINKLE. Let's get to them.

The CHAIRMAN. You have other problems that are hampering or impeding your program?

Mr. FLOESER. I would like to ask a question on the procurement agencies before you leave the subject.

In August, we had a lengthy conversation over this phone and we discussed then the problems you were trying to decide in procurement. Then you were in conferences with the Army, Navy, Maritime, and the Treasury.

Mr. HOLLAND. Yes.

Mr. FLOESER. They had assigned men to a sort of staff for you or committee?

Mr. HOLLAND. That is right.

Mr. FLOESER. Do you feel that there has been any unnecessary delay there, that procurement has not been giving full cooperation?

Mr. HOLLAND. Not a bit. You see, if we had been ready to go—we could not go without this administrative order, don't you see? It set us up. We just have had this. It is effective September 15.

Mr. FLOESER. Do you have now a satisfactory understanding with the Army, with the Navy, with the Maritime and the Treasury?

Mr. HOLLAND. I will just answer that question by saying this: If anybody had told me 2 months ago that I would get the cooperation out of Army and Navy and Maritime Commission that I apparently am getting, I would have said that it cannot be done because I think that we have broken down a barrier. I do not think it is any secret that Army and Navy and Maritime Commission have had their way of doing this job for many years and they did not think kindly about having someone come in and tell them how to do it, but I have attacked the thing from a little different angle. I have called their attention to the economic condition of this nation and to the fact that we hope, when this war is won on the other side, that we will have won a war, and that we want to come home to a country that is not so upset economically that it is a fertile field for soap-box orators to get up and start an overthrow of our Government and the economic condition of small towns throughout the United States is terrible. They are worse than they were in the depression.

I can take you into towns—I don't think there is any need of reciting this to you, gentlemen—of five or six thousand population. They are the backbone of America. You will find the public square with vacant buildings on it, and John Jones, who has been in a general store for years, has gone out of business, and the store is vacant and the com-

munity cannot collect enough money to give normal service and conditions are terrible and those people are suffering and they don't understand it, when they read about these big contracts, and the highly congested districts in the Detroit area and other places. Their boys have been taken away to war and they read that they are not equipping our soldiers as well as we should and they say, "We are here and ready to do this work and they don't give us anything to do." It is just a bad condition. I have found, in talking to these procurement officers in the field—they have got procurement officers over the country and especially in the field, do they recognize this condition but the field man cannot do very much, gentlemen, if an order comes through from Washington to a procurement agency in the field, and that order is earmarked to give to somebody.

That man in the field cannot do a doggone thing except give it there, and that is not spreading the work.

The CHAIRMAN. You mean, that is the way some of the orders have gone from Washington?

Mr. HOLLAND. I am not a procurement officer and I am just trying to straighten this thing out, Mr. Patman, and I think I am making progress.

The CHAIRMAN. I think you have recited one of the principal evils, too, in your reference to that order from Washington. I discovered that and I discovered that local people were able to do the work when the order was assigned and given to people on the other side of the country.

Mr. HOLLAND. What seemingly may be to you slowness of operation, but I am sure you would rather get these obvious things done first.

The CHAIRMAN. And have a good foundation?

Mr. HOLLAND. And have a good foundation and an understanding, so that we can render the greatest amount of good under this act. It is far better than to go off half-cocked and not know what you are going to do and not have an understanding, because that would not get us any place. It would be doomed to failure, and I can tell you that I have never worked so hard in my life.

I haven't had one day to myself since I have been over here. I have been working on this thing night and day and Sunday, trying to iron it out so that everybody will have an understanding and I am trying to do it on a cooperative basis, not force them to do it. If you force a fellow to do it, why you have got two strikes on you at the start.

If we can show them the advantage of doing this in a cooperative way and let it be their program—

The CHAIRMAN. You mean the procurement officers?

Mr. HOLLAND. I am talking about the procurement office.

The CHAIRMAN. I want to tell you one thing about the procurement office of the Army. We had a Major Smith—I do not remember his first name—before the Committee on Banking and Currency and his picture was very gloomy about small business.

He testified—I asked him, "Suppose a small manufacturer up in Connecticut should want to do some kind of work—some kind of war work. He had the facilities, he had the tools, the skilled help and everything. What would you advise him do do?"

He said, "Go to a big manufacturer who has a contract."

I said, "Well, suppose a big manufacturer wants too much of the gravy; he wants everything that is good, and gives this little fellow something that he cannot make money on, and he refuses to take it. What do you do then?"

He said, "Do without. You cannot do anything." That was his testimony before the Banking and Currency Committee and he held out no hope whatever to small business.

I hope you do not run into that gentleman and if you do, I hope you change his attitude because it is not sympathetic towards small business.

Mr. HOLLAND. I run into plenty of those people.

Let me tell you this: I am not in the least discouraged. It is pretty hard to discourage this Irishman. I may be a little disappointed sometimes in what happens, but I am going to be a hard fellow to discourage, and we are going to do this job and we are going to do it the way you want it done, and there isn't any time being lost in doing it, but when you have got a system that has gone over a period of years, and years and years—

The CHAIRMAN. Yes; a hundred years; some of them.

Mr. HOLLAND. A hundred years, and you know what the little fellows are up against. The big fellows, for instance, for many years have had their men in Washington, and you know them. They have had their men in Washington; they know these procurement officers; they know all the high officials of Government; they are good friends; and anything that a Government official—procurement officer—wants out of these big concerns he will get it, they are friends.

Naturally, when a big program like this comes along they are the ones they look to for immediate production. It is probably right that they should.

The CHAIRMAN. In the beginning, I can see a reason for it.

Mr. HOLLAND. In the beginning, but you let the fellow come in from your territory or my territory—and I am a little fellow—I was here 19 times—all we get is the brush-off. We don't know who to go to. We can't put on any entertainments or parties, we can't give any cocktail parties and invite a lot of people there.

In the first place, we do not have the money, and in the second place, we would not know who to invite.

Mr. FITZGERALD. Mr. Holland, assuming that this plan or program you have is going to work—I agree with what you said and that is why I said if the Government paid, it would be cheaper in the end, if they paid the fellows \$15,000.

Assuming that your plan is going to work, how about the raw materials? You testified before this committee here several months ago—I think Mr. Henderson gave the testimony out that the production of this country, the big fellows could take of, and that there were going to be 24,000 small businessmen who would have to go out of business because they could not get the raw materials.

How are they going to get the raw materials, if you say your plan is going to work?

Mr. HOLLAND. I asked that very question of Mr. Nelson when he was trying to get me to take this job. Mr. Nelson said a great deal of the work of the small plants will go from contracts that we break down that are now held by large plants and in this case, the bill of materials will simply be transferred from the large plant to the small plant, so there will be no trouble along that line.

Then I said, "Well, what about the fellow that takes a prime contract and he is the small concern or a group of small concerns?"

And he said, "Well, we will see that he gets his share of materials, just the same as the big fellow does."

I told you at the start, gentlemen, that Mr. Nelson promised me his 100-percent cooperation, and up until now I have no reason to doubt it in any way, shape, or form.

Mr. **BULWINKLE**. Mr. Holland, let me ask you this one question. Would it be advisable for, about once a month, a subcommittee of the House committee and the Senate committee to have a little session with you down at your office?

Mr. **HOLLAND**. I would be delighted to have you gentlemen.

Mr. **BULWINKLE**. I am not counting on taking 10 or 12 men down there each time, because it is hard to get them, but say two members of the House Committee appointed by the chairman and two by the Senate committee. We will let you fix the date and notify us when you want us to come so that we can come to you.

If anything is needed, we can do it up here.

The **CHAIRMAN**. Like this civil service matter that can be corrected. I think we should have a civil-service man up here to make sure that we understand the viewpoint of the Civil Service Commission.

Mr. **BULWINKLE**. We understand it. We have had enough of it. I have run into them hundreds of times. I can tell you what they will say or do. What is the use?

The **CHAIRMAN**. I am not doubting your knowledge, Major.

Mr. **HOLLAND**. I think you can understand my position. I have to have trained men because these small shops can do work just as good as the large shops if they are given proper instructions on how to do it, but listen, we are using, for instance, a Navy bronze. It has no free cutting material in it.

Then we have a new type of material that we are using now, a manganese bronze, and I have dealt with both of them. I have seen them worked. They have this characteristic; the minute that you put a tool in there and take the scale off of it, it releases the stress and the stock starts going out of shape.

These Army and Navy contracts, frequently you will run into tolerances of two ten-thousandths of an inch, and that is a pretty fine tolerance and this stuff will probably go out three or four thousandths overnight on you. Unless you have somebody who can go in and show them the characteristics of this material and what they have to do—they have to take three cuts and you have to come down gradually on it and the last one you have to leave just about a thousandth on there, and let it set over night and in the morning take it off and you can maintain your tolerance, but the small shops are used to going to the supply house and buying bronze, and it has got free-cutting material in it, which is lead. He can make it any size he wants and so, when he bids on these things, and says, "Oh, yes; bronze; I can handle that" and then he gets something that he has never seen before, and then they say, "Well, the small fellow cannot do it." He can do it, but he has to have this little instruction.

Headley Williams tells me that these small shops in England are absolutely indispensable and that in hundreds of cases they are making items far more economically than the large shops.

Mr. **HALLECK**. Mr. Chairman, I just want to make an observation. As one member of the committee, Mr. Holland, I would like to say

that I have been very much impressed with your statement here and what you are trying to do on this job.

Of necessity, I can see that you have had a lot of things to contend with, and this committee is tremendously anxious to have you get going as quickly as you can. As I look at it, it kind of comes down to this, as the chairman suggested a moment ago, we started out on our tremendous war effort under terrific pressure and we needed big things, and we turned to a lot of big people to do them. A lot of us, at that time, chafed at the failure of more of the procurement agencies to bring in the smaller plants, but they did not see fit to do it, but now are we not coming to the time when we are talking about a total mobilization, a total industrial mobilization and manpower mobilization, so doesn't it follow at this time, that it is becoming more important than ever before that all these smaller plants be brought into the picture?

We have had a lot of false starts, and I am glad to see that you are trying to avoid any false starts, but are rather trying to get down to the job that is immediately before us. I am sure that the committee as a whole, appreciates your appearance here, and I for one, think you are doing a good job with it, and I want to commend you for it.

Mr. HOLLAND. Let me tell you just a little observation on how you have to do this: I went to see one of the procurement officers 2 weeks ago today, and I took one of my engineers with me. There was a new item coming up. They wanted 15,000,000 of them. He started to tell me that they had facilities for making all these. He was going to spread them out among 35 shops. My man started talking with his engineer. This is a new item and he told the sort of dies that would have to be made to make this item and how many steps there were in it. This general turned to me and he said, "Wait a minute. I have never had anybody come in here before representing the War Production Board who talks the way this fellow does. That fellow can teach us something about this job; he knows the fundamentals of the design and how to make the thing. He has made them.

"Now let me tell you something; if you are surrounding yourself with that kind of men, I am going to cooperate with you and give you all the work you can do because I will know the work is in safe hands and whenever you want to come over here, come to my office. Don't you see anybody under me because I am going to work with you."

He said, "By the way, how many of these do you want to make?"

I said, "Why, I would like to make a million, just to show you that the little plants can do it."

He said, "You can have more if you want."

I said, "No; I don't want more. I want to make a million. I just want to show you that the little plants know how to make those dies, how to do the work, and how to do this complete job."

He called the procurement officer and said, "Give Mr. Holland a million of those to make."

The procurement officer said, "Will you certify as to the competency of these firms?"

The general said, "Hell, no! We won't certify; when he certifies that compels me to operate, and I don't have to be compelled."

He said, "When I have got men coming in here who know more about this thing than I do, believe me, I am glad to turn it over to them and you come back any time you can."

That is why I say I am getting cooperation out of these procurement men. I am taking them at their word. They have told me what they are going to do. They have told me that they are going to put up a vast number of things for us to pick out and find out the source for, give us a reasonable time to find the source and that they will place contracts there.

I am taking them at their word and I think they are going to do the job and if we don't do it, then I will tell you just exactly why it is not being done.

The CHAIRMAN. Do you need any other amendment to existing law, except the Civil Service provision that has been mentioned here? If an amendment is needed that will help you in carrying on your work, Mr. Holland—

Mr. HOLLAND. I don't know of any amendment, and I do not want to upset existing laws.

I am telling you that I did not understand these things when I came over here. I am into it and there has been a retarding effect, all right enough, but there are a lot of things.

The CHAIRMAN. It is just about time for us to close on account of a meeting of the House. I think the President made the best selection he could have made when he selected Mr. Donald Nelson and I think Mr. Donald Nelson made a fine selection in you. I am very much impressed with your ability, background, and sincerity of purpose and your efforts to lead the small businessmen in the direction that will be in the interest of the country as well as in the interest of themselves, but I do want to insist that a procurement officer should, without any delay whatsoever, give you assurance that they will contact you in advance, and that they will let you know what they will probably need in the future, so you can be working on it, give you plenty of time, tell you even the price that will be allowed and then I think you should have some assurance from those who are charged with the duty of allocating materials. I think you should have some authority there to make sure that you will have the materials available to carry on this work after you get it, and I see no reason why there should be much delay in getting this assurance, Mr. Holland.

I couldn't be frank with you, unless I stated that I am disappointed that more progress has not been made in just that direction. I am not saying that you are negligent. You are not. You have done everything you can do in prosecuting this matter, I believe, but I am disappointed that they have not come up immediately and said not only "Yes; we will cooperate with you 100 percent," but "Here is our promise to give you notice and we are fulfilling it every day by telling you what we are going to need in the future, what we will pay for this, when delivery will be required, and everything else."

I think that should be forthcoming without any further delay and I hope it can be done.

Mr. HOLLAND. I don't think we have any trouble on that score at all.

The CHAIRMAN. Yes, sir. Any other questions?

(No response.)

The CHAIRMAN. Thank you very kindly, Mr. Holland, for this very interesting discussion on your part.

(Whereupon, at 12 o'clock noon, the committee adjourned subject to the call of the Chair.)