

TAKING THE PROFITS. OUT OF WAR

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TAKING THE PROFITS OUT OF WAR

TUESDAY, JANUARY 26, 1937

HOUSE OF REPRESENTATIVES,
COMMITTEE ON MILITARY AFFAIRS,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Lister Hill (chairman) presiding.

The CHAIRMAN. The committee will kindly come to order.

We have before us this morning H. R. 1954, a bill to prevent profiteering in time of war and to equalize the burdens of war and thus provide for the national defense, and promote peace.

[H. R. 1954, 75th Cong., 1st Sess.]

A BILL To prevent profiteering in time of war and to equalize the burdens of war and thus provide for the national defense, and promote peace

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That whenever Congress shall declare war or the existence of an emergency due to the imminence of war, the President is hereby authorized to determine and publicly proclaim it to be unlawful to buy, sell, or otherwise contract for any article or thing enumerated in such proclamation, or proclamations, at a higher rate, rent, price, commission, compensation, or reward than was in effect at a date determined and set forth in such proclamation, or proclamations.

SEC. 2. Whenever in the sole discretion of the President he shall determine that any maximum price, rent, rate, commission, compensation, or reward previously proclaimed shall be adjusted either upward or downward he is hereby authorized to make and publicly proclaim such adjustment, and such adjustment shall have the full force and effect under this statute of such price, rent, rate, commission, compensation, or reward before such adjustment.

SEC. 3. That in the event of war, or of a national emergency declared by Congress to exist, which in the judgment of the President demands the immediate increase of the military establishment the President be, and he is hereby, authorized to draft into the military service of the United States such members of the unorganized militia between the ages of twenty-one and thirty-one as he may deem necessary, subject to such conditions, exemptions, rules, and regulations as the President may prescribe and publicly proclaim. Likewise, during such time of war or national emergency declared by Congress, the President shall have power to determine and publicly proclaim from time to time the material resources, industrial organizations, and public services over which Government control, including requisitioning materials for use or resale by the Government, shall then be necessary and such control shall be exercised by him through agencies then existing or which he may then create for such purposes.

SEC. 4. During the period of any war or emergency declared by Congress the President is hereby authorized, when in his opinion the successful prosecution of war renders it advisable, to require, under such rules and regulations as he may establish, the registration of all or any class of persons engaged in the management or control of any industrial or manufacturing establishment designated by him. Thereupon, at his option, such persons registered pursuant to the provisions of this section may be brought into the service of the Government as civilians for the duration of the war under such rules and regulations as the President may prescribe.

waste, and loss, and that it would reduce the cost of war by 50 percent and possibly a greater figure.

Of course, no group is so vitally interested in this or has such knowledge of it as the 5 millions of men who served during the war, and through the Legion they have been voicing their sentiments about this legislation.

As you know, finally the Nye-Vandenberg resolution was passed in the Senate and the Nye committee created to investigate the profits made during the last war. At the same time, 2 years ago, Congressman McSwain introduced his bill (H. R. 5529), and you gentlemen reported it favorably the session before last. When that bill came up on the floor of the House it suffered—and I say that advisedly—25 amendments, the principal of which was the striking out of the manpower provision of the bill; that section which calls for the drafting of the manpower in case of an emergency. And that is one of the things, of course, in which the Legion is most vitally interested. We want to see everybody do their full share during the next war. We hope no war will come; but, if it does, we want all of the manpower of the country called into the service.

That bill provided for the calling of the men between the ages of 21 and 31. I think some 12 million or 14 million were registered, and finally about 5 million were actually drafted, but a tremendous number of them seeped through the sieve. That is what we want to stop. We want everybody to do their full share during the next war.

In addition to that, we want to see to it that inordinate profits, excess profits, are not made as a result of the men doing the fighting. During the last war the soldier got \$30 a month. If he was married (and a great many of them were) or had dependent parents, \$15 was taken from his salary, called an allotment, and the Government contributed \$15 called an allowance, and that was \$30 a month that the soldier's family received during the war. That income was fixed and stabilized and with the vicious increase, the vicious cycle in the rise of the cost of living, together with the cost of wages, one following the other—I do not know which started first—the family of the soldier was the family that found itself in want. They were the people who had a stabilized income of \$30 a month while the boy was wearing the uniform doing the fighting, and they were the ones who suffered most from the extraordinary and inordinate rise of the cost of living.

That vicious thing should never happen again in the United States. If we are dragged into another war, the cost of living should be stabilized so that that particular group and that particular family should not suffer. And that was the intent and purpose of the so-called McSwain bill.

Now, then, we have come before you again this session of Congress and we are presenting to you the bill that you reported favorably to the House two sessions of Congress ago—not the bill as it passed the House, but the bill which you gentlemen, in your wisdom, saw fit to report to the House, with certain very few amendments. We have stricken out some language and inserted some language, with the hope that the legislation might be clarified so far as those amendments offered on the floor of the House are concerned. And I will refer to just a few of them.

For instance, one amendment—and it was offered by Mr. Connery, of Massachusetts—called for the striking out of the word “thing.” In the bill you passed and the bill which is now before you, it reads:

The President is hereby authorized to determine and publicly proclaim it to be unlawful to buy, sell, or otherwise contract for any article or thing * * *

Mr. Connery believed the word “thing” would refer to labor, and considerable debate was had upon that on the floor of the House, and finally, by a vote of 30 ayes to 57 nays, and on a teller vote of 57 ayes to 78 nays, it was rejected.

Then, later on, Mr. Faddis, who is a member of this committee, put in an amendment to clarify the situation, and Mr. Faddis’ amendment read:

That nothing in this section shall be construed as a conscription of those employed in industry.

Well, of course, the Legion does not want the conscription of those employed in industry, and, of course, we are in thorough accord with the thought expressed in Mr. Faddis’ amendment. There is no intention in this legislation to take the men in industry and put them in uniform and have them work at \$30 a month; but we are convinced that wages, like the cost of every other “thing”, as it was included in this bill, should be fixed and stabilized. At least a ceiling should be created over which they cannot rise.

Mr. MAY. Would the witness pardon me for a question?

Colonel TAYLOR. Yes, sir.

Mr. MAY. Under every wage scale we have in this country, in every industry, the average of the cost of wages that goes into the cost of production ranges from 65 to 75 percent.

Mr. FADDIS. Oh, no; 23 percent.

Mr. MAY. And if you did not regulate the price of wages, the price of the product, whatever it might be, whether wheat, corn, or any other product, would go up proportionately.

Colonel TAYLOR. That is what we hope shall be done—that it shall be fixed and definitely regulated. I do not mean it shall be fixed insofar as the price is concerned, but that a ceiling shall be created.

Mr. MAY. That is what I mean.

So, in this bill which is before you now (H. R. 1954), I am going to suggest that on line 7, after the word “article”, there shall be included the word “service.”

The CHAIRMAN. What page?

Colonel TAYLOR. On page 1.

The CHAIRMAN. It is line 6 in this bill.

Colonel TAYLOR. I have the Senate bill before me. On page 1, line 6:

The President is hereby authorized to determine and publicly proclaim it to be unlawful to buy, sell, or otherwise contract for any article, *service*, or thing.

We are requesting that the word “service” be placed in there specifically to be applicable to this question of wages.

Then another amendment came up during the debate on the floor, and that was one offered by Mr. Goldsborough, who suggested striking out entirely that section dealing with man power. In fact, that amendment that Mr. Goldsborough finally used to have the bill recommitted to the House, if you will recall, eliminated entirely—

The CHAIRMAN. Section 3, page 2?

Colonel TAYLOR. Yes. Mr. Goldsborough moved to recommit the bill with instructions to report same back to the House with the following amendment:

Strike out all of the first sentence of section 5 [as he designated it] which provides for human conscription.

And the motion to recommit was carried by a vote of 205 to 183. Then Congressman McSwain, your chairman, brought the bill back with that eliminated, and in that manner it was passed.

Of course, you all will recall the debate on the floor of the House and how the argument was constantly raised that this bill did not take care of the question of profits—excess profits—and how Congressman McSwain in the very closing of the debate offered his amendment to take 100 percent of the excess profits. And I can see the chairman now [Mr. McSwain] when he offered that amendment. He turned around and looked to see whether the chairman or any member of the Ways and Means Committee would object to it, because certainly no proposal of that sort could come from the House Military Affairs Committee. And he waited for 2 or 3 minutes, and there was a dead silence over in the well of the House. Nobody objected to it, and that particular amendment was carried.

Now we are asking in this particular bill, that instead of the language that was offered by Chairman McSwain, and which was adopted by the House, the following language be used:

That upon the declaration of war and during the period of such emergency there shall be imposed a tax of 95 per centum of all income above the previous three-year average, with proper adjustments for capital expenditures for war purposes by existing or new industries.

I am reading section 9 of the bill before you, and that I have taken directly from the report of the War Policies Commission. That language was used in the recommendations the War Policies Commission sent to the President and by the President approved and sent to the Congress.

The CHAIRMAN. Have you before you there the names of the members of the War Policies Commission?

Colonel TAYLOR. Yes; I have them right here.

The CHAIRMAN. Would you mind reading those names into the record at this place?

Colonel TAYLOR. The members of the War Policies Commission were Secretary of War, Patrick J. Hurley; Secretary of Navy, Charles F. Adams; Secretary of Agriculture, Arthur M. Hyde; Secretary of Commerce, Robert P. Lamont; Secretary of Labor, William N. Doak; the Attorney General, William DeWitt Mitchell; Senator David A. Reed; Senator Arthur H. Vandenburg; Senator Joseph T. Robinson; Senator Claude A. Swanson; Congressman Lindley H. Hadley; Congressman William T. Holaday; Congressman Ross A. Collins; and Congressman John J. McSwain.

Patrick J. Hurley was chairman and, if you recall, Senator Swanson was abroad attending the Geneva Conference and in the final report his name, of course, was not included. And the only dissenting opinion was filed by Ross Collins, a Member of the House.

With that short statement, gentlemen, we have two other amendments that I want to suggest to the committee, but they are the

regular amendments, which we failed to put in the bill at the time we submitted it. One is that we are adding a section 10:

That all Acts or parts of Acts conflicting or inconsistent with the provisions of this Act shall, to the extent of such conflict or inconsistency, be suspended during the effectiveness of this Act.

And section 11:

If any provision of this Act in the application thereof to any person or circumstance is held invalid, the remainder of the Act and the application of such provision to other persons or circumstances shall not be affected thereby.

We are suggesting those amendments as sections 10 and 11.

Now, with that short introduction of the subject, Mr. Chairman and gentlemen of the committee, and with the request that I be held over until after our national commander speaks, if there are any questions you wish to ask me, I desire at this time to present to you the national commander of the American Legion, Harry W. Colmery, who will speak at length on this legislative proposal.

I thank you very much.

The CHAIRMAN. Mr. Colmery, we will be delighted to hear from you, sir.

STATEMENT OF HARRY W. COLMERY, NATIONAL COMMANDER, AMERICAN LEGION

Mr. COLMERY. Mr. Chairman and gentlemen of the House Military Affairs Committee, there would have to be a reason in my mind satisfactory to myself to ask your indulgence for any time upon this bill, in the light of the fact that this committee, as such, and a majority of its personnel have apparently, over a long period of time, given great study and thought and investigation and research to the problems which surround this type and character of legislation.

At the outset, I want to recognize, on behalf of the Legion, a debt of gratitude to those of you who have been interested in it and to state publicly what I believe to be a fact, that as Representatives in the Congress and as citizens in the Republic you are just as sincere and just as interested and just as devoted and just as desirous to accomplish something which might effect a basis for permanent peace and equalize, if possible, the burdens of war, as those of us who, for the time being, might be more active than you in the field of a voluntary organization, such as the American Legion or any other veterans' organization. Were it not for the fact, in the light of that background, that this is something that the Legion has been so sincerely interested in over a long period of time, I would not occupy any time before your committee. But I am not so sure but what the men of the Legion had been thinking of this bill before it was conceived in this type of legislation; that even as they saw service, equipped and fit for fighting, mobilized to serve the country, yet without modern weapons such as machine guns, rifles, tanks, airplanes, and so forth, facing a situation where a drive was being made upon Paris, the necessity for immediate action, a force determined to make a drive before America could be ready many in our ranks saw that the American Army had to be equipped with the supplies furnished by the French and the British Governments and we knew something was wrong, but we did not know just what it was. And that has been one of the things in the background as we sought to

enact something, or get some plan which might be a deterrent for war. In that respect, of course, in the first instance they provided for the instantaneous mobilization of the resources of the Nation which, in our judgment, does present the first purpose of the bill, that is, an active deterrent for future wars.

Then, of course, when the men came home, they found the Nation in the throes of a period of deflation following an orgy of inflation and profiteering, with the falling of prices as an aftermath of the skyrocketing of the prices incident, of course, to the profiteering era of the World War.

I do not think we knew just what that was about right then; but it was not long until, in 1921—and we have been with this, as I say, before then—the Legion appointed a committee of able men, who studied all of the wartime legislation of this Government and the experiences of the French, British, German, and Italian Governments throughout the World War and brought in, in 1922, a suggested bill which is now, in substance, what you have before you and what you have been considering, with some modifications as increased knowledge has given rise to them.

I am interested probably more in some things I have picked up in the hearings. As I get this bill and the objections which apparently were made, there are things in here which answer most of the queries which were made at the prior hearings.

This bill does certain specific things. When war is declared, or the existence of an emergency due to the imminence of war is declared, by the Congress, exercising, of course, its constitutional powers in that regard, the President, first, is given the authority to determine and publicly proclaim what we call a ceiling of prices and make it unlawful to buy, sell, or otherwise contract for any article, service, or thing at a higher rate, rent, price, commission, compensation, or reward than was in effect at a date determined and set forth in such proclamation.

Secondly, the further power as to those things as to which a proclamation is made, to adjust those prices either upward or downward as in his discretion the situation requires.

Thirdly, in section 3, a double-barreled provision, to draft into the military service—the word “military” has been written in. I take it, to answer the queries as to whether or not the power to draft would constitute a conscription of labor—to draft into the military service of the United States such members of the unorganized militia between the ages of 21 and 31 as he may deem necessary.

Then this power, which seems not to have been in the bill—at least, as I gather from some of the hearings which I have gone through—the power to determine and publicly proclaim from time to time the material resources, industrial organization, and public services over which Government control, including requisitioning materials for use or resale by the Government, shall then be necessary, and to create the agencies for the purpose. That, of course, is the necessary power to carry out the slogan which the Legion adopted in this connection of “Equal service for all and special privilege and profit for none”, by making it possible, by legislative fiat, to declare what might be called to the defense of the country in addition to calling the manpower.

Then in section 4 there seems now to be inserted something as to which there was some query in prior hearings—the determination of those who should be registered among those engaged in the management or control of any industrial or manufacturing establishment designated by him, and then to bring into the service of the country as citizens, for the duration of the war, such registered persons under such rules and regulations as the President may prescribe.

Then the power in section 5, to determine the classes of the groups designated which should be licensed.

In the sixth section, to determine the orders and priorities.

In the seventh, to create and designate the agencies, boards, or commissions necessary to carry out and accomplish the purposes of the act.

And over in section 9, the provision which seems to answer the objections made throughout the greater part of the last hearings, because there was no provision in the original bill which would capture excess profits and, therefore, this is meant, as I take it, to answer the objection that the bill, after all, did not take the profits out of war. I notice in the final analysis, in some of the hearings, some of the gentlemen got back to some original statements made in the original record that probably the Government could not take over business and industry in the time of a national crisis and do it constitutionally; and as I have read the record very cursorily I noted that seemed to end the argument and the discussion, not only with some of the witnesses, but some of the members of the committee and the Members of Congress when such a statement was made.

May I respectfully call your attention to this fact—and these are not ideas of my own; I have, in times past, conferred with some whom I think are rather eminent lawyers in this Nation—first, as to the power of the Government to fix prices of those things which the Government must buy. There is no question whatsoever as to the power, long since determined, back in the case of *Kohl v. Maryland* (94 U. S.), where it was held, in connection with the necessity of the Government, having the power of eminent domain, to build naval bases, post offices, arsenals, and everything else, that the Government, as a government, could not be at the whim of a private citizen in the carrying out of any governmental function. Of course, the Constitution lodges in the Federal Government the power and makes it its duty to provide for the common defense and to carry on war and provide and maintain an Army and to provide and maintain a Navy.

But when we get into the field as to whether or not the Government has the power to fix the prices of those things which the civilian population shall buy, then, of course, there are other subjects which necessarily command consideration.

The Legion, from the inception, although others have not followed this same line of reasoning, has been interested in eliminating profiteering, but preserving, as I understand it, the normal profit system of America, starting with the basis that when you take the young American boy, provide him with his clothing and his shelter and pay him some compensation at least, that, if you are to take business and finance and industry and capital, then the same principle would be carried over in connection with this type of legislation. The Legion could not do otherwise, may I state, under the

preamble to its constitution, dedicated, as I understand it, to the ideals and principles of America, unless it did preserve the sanctity of private property and protect the freedom and the obligation of contract within the scheme of our constitutional democracy. But the effort has been directed at excess and abnormal profits, and the elimination of all profiteering, and I shall mention those later as a justification in connection with the power to do this very thing.

As to that power, when you get into whether or not you can take all the property, either by regulatory effort or by some other means, with all due respect to those who think a constitutional amendment is necessary, I will say, without fear of successful contradiction, that in the light of the decisions of the courts of this country, and the principles of what is fair and just, there is no necessity for a constitutional amendment and that the power is in the American Congress to do this very thing. Going back to the case of *McCullough v. Maryland*, where it was determined that where the Congress is given a power—in this instance to carry on a war—it has some discretion as to the means which shall be used to effect the accomplishment of that power. And there, in that opinion by Chief Justice Marshall, it was said, and which has long since then been law and—ending the struggle of those who for 30 or 40 years were contending for a liberal and those contending for a conservative construction of the Constitution—that if the end was legitimate and within the power conferred by the Constitution on the Congress, then any means reasonably adapted to that end was properly within the power granted by the Constitution and would not constitute an invasion of the rights of the individual citizen.

So, then, we get to this question as to whether or not the fixing of prices of the things which the civilian population must buy is reasonably adapted to the successful accomplishment and winning of a war. I think the Supreme Court of the United States has determined it long since. And, by the way, this is one of the reasons which you probably should bear in mind, if that statement is correct, for the drafting of a general bill, that in the light of decisions of the Supreme Court of the United States there is quite a full power vested in the American Congress in a lot of those cases and if you go to getting too much into details, you will be restricting, possibly, the plenary power that the American Congress has in connection with the exercise of its war powers. If back in the selective draft cases they could say the American boy could be sent to foreign shores, and put in uniform, and his wages determined for him, and he be deprived of his constitutional rights of freedom of speech and trial by jury, and in the *Block v. Hirsh* case you could regulate rents, because of the emergency of war, in the District of Columbia, and if under the Adamson law, at the same time, you could fix the wages of employees on the American railroads; if in the face of decisions that said that even though they have the power to regulate public utilities, yet that did not give the Government the right of management and yet the court held, in the time of the World War, that the Government could take over the operation and control of the entire telephone and telegraph systems of America; if in the *McIntosh* case they have said a man could be denied his citizenship if he refused to take an oath to bear arms in defense of the Nation, something like that; and they said there in time of war you could deny freedom

of speech, freedom of the press, you can requisition ships, commander materials, you can fix the prices of food and the other necessities of life, it looks quite well as though maybe the decisions of the courts have already established that power.

But even if they have not, may I make this suggestion to you, that proceeding on the Legion plan, which has been to fix a ceiling—not to freeze a price, but to fix a ceiling which would preserve a normal profit—then there is not involved the question as to whether or not there is a confiscation of property without due process of the law. The only question that is involved is in connection with the interference of freedom of contract—whether, if I am running a grocery store, I can sell my bread for 10 cents or 7 cents, or sell a pair of shoes for \$3.50 instead of \$3. That is the only constitutional question involved when you get into the theory which the Legion has always presented.

That brings up something which I have found few people have seemed to have given much thought to, yet it is just an old story of the constant struggle between liberty in this country and the exercise of authority; when “liberty” to do what I want to bring about the greatest degree of comfort and happiness to myself must be restrained now and then so that I do not step on the toes of you gentlemen. That is where the exercise of authority comes in to restrain my liberty. So in finding out whether or not there is the power in the Congress to restrain this freedom of contract, what is paramount is whether or not the individual rights of business, industry, and of freedom of contract shall give way to the public good and whether or not the Congress, exercising its discretion, can, in the light of all the circumstances, have reasonable ground to say that the public good is paramount to the individual property right of the American citizen.

And there are ample reasons why that can be justified as a matter of constitutional law. In the first place, it is manifestly fair and just, as I suggested a bit ago, war is a community effort, a partnership enterprise. The best army in the world would be impotent in 30 days without the complete cooperation of the large army behind it. It takes the farmer growing the raw product, the manufacturer processing, the distributor distributing, the retailer selling, the banker, financier, and everybody acting together to protect the Nation's integrity and defend it in time of war. The same power, of course, that can take the American boy and take him away from his home and his family, as I said a bit ago, and deprive him of his constitutional rights of freedom of speech and trial by jury, fix the wages at which he shall serve, call upon him to face death, certainly from the standpoint of American principles of fairness and justice, can say to other groups of the American citizenry and property that they must serve equally in defense of the Nation's integrity in time of national crisis.

Secondly, as another justification, the needs have already been established in the history of the World War; because, at the close of it, we were doing that very thing. And I think it was pointed out in your hearings last year, somebody put into the record the various types of legislation which you had had, where the power was granted to fix and control prices, because it had been demonstrated it was absolutely necessary to do so.

Something like this would be enacted, no doubt, at the beginning of a war. I think that it is better to study this deliberately in peace time than to do something hurriedly on the outbreak of war.

Mr. MAVERICK. What I have in mind is this: In Europe Mr. Hitler is arming to the teeth, and they have real honest-to-God militarism over there. We all agree on that, and we all understand that. I was wondering from an international viewpoint, in view of the fact that we can put this legislation into effect, if a war starts, within 2 weeks, whether it would be psychologically advisable at this time, and whether it is really necessary to pass legislation.

General JOHNSON. Is it psychologically advisable? I do not see how this could be regarded as a hostile move on our part, or putting a chip on our shoulder. I do not think so, because it is purely defensive. It just gives the authority to do things when war comes. It does not start anything in motion. It merely lays down a plan for industrial mobilization in case trouble comes, as I understand it. I regard the passage of the bill as advisable.

The CHAIRMAN. Is not this true, too, General, that not only if you pass it now you can do it with more confidence and more deliberation and not subject to the heat and passion of a war, but that if you wait until after war is declared there would necessarily be some delay about the passage of any legislation? Things would get more or less out of range and get out of hand, and prices would skyrocket and everything become disrupted in such a way that when you do pass your legislation it would be impossible to do what you could do if your legislation were passed at this time?

General JOHNSON. That is absolutely true, and another thing—if you wait to do this until the heat of hostilities, you do not know what crazy things will be tacked on here without proper consideration.

The CHAIRMAN. So, undoubtedly, wisdom dictates that Congress pass it at this time?

General JOHNSON. All I am afraid of is that even now we may get something tacked on here to make it too inflexible.

The CHAIRMAN. Insofar as possible, if we have to have a war, we want to mobilize all of the economic strength of the country, and in mobilization of that economic strength we want to do it, just as much as possible, as we have it in times of peace?

General JOHNSON. Yes. Another point that is highly important is this: That one of the greatest troubles about modern war is the inflation of prices which ruins the civilian community. You have provisions in here to prevent that. That happens sometimes very rapidly upon the outbreak of war. As a matter of fact, you have quite a real inflation of prices right now in some commodities due to preparation for war in Europe.

Mr. ANDERSON. General, you were a member of the War Industries Board during the World War, were you not?

General JOHNSON. Yes, sir.

Mr. ANDERSON. At that time your board had quite a little power, did it not?

General JOHNSON. Yes, sir; it evolved for itself a lot of power.

Mr. ANDERSON. It was not limited?

General JOHNSON. You say our power was not limited?

Mr. ANDERSON. Yes.

General JOHNSON. We used all the power we thought we needed.

Mr. ANDERSON. General, can you give us this information? Can you show wherein this bill gives the same board during wartime more power than it had during the last war?

General JOHNSON. No; I do not think it gives it any more power, but the same power more clearly defined.

Mr. ANDERSON. What is your construction of the language on page 4, General?

General JOHNSON. As I told you, I am not intimately familiar with the language of this bill. I have read it several times, but not recently.

Mr. ANDERSON. What is your construction of the language on page 4, the first line, section 6: "During the period of any war or emergency." What is your construction of the word "emergency" there?

General JOHNSON. Well, I should think, just as a matter of statutory interpretation, that "emergency", as used in connection with the word "war", means an emergency in the nature of war. I would say that if there were any doubt about that it ought to be cleared up. I do not think you ought to write an act which will permit this kind of thing to be done apart from the pendency or the actual imminence of war.

Mr. WILCOX. We ought to call the General's attention to the first section of the bill in that connection.

The CHAIRMAN. Yes, General; line 3, on the first page.

Mr. WILCOX. Yes. "Or the existence of an emergency due to the imminence of war." I think they ought to be construed or read together.

General JOHNSON. Of course, putting the words "due to the imminence of war" in one place and leaving them out in another might result in a construction that the omission in the second place was significant and intended other than a war emergency.

Mr. DORSEY. Of course, we have considered that, and we understand that "due to the imminence of war" will be added in all other sections.

The CHAIRMAN. Certainly, as the general said, the language will be made more specific.

General JOHNSON. If it is not clear, it ought to be made clear.

Mr. ANDERSON. General, we have had some witnesses before the committee who have discussed the subject as to whether or not certain classes of labor should be exempt from conscription such as railroad conductors and trainmen, that they should be exempted from conscription. What is your viewpoint on that?

General JOHNSON. There has been a great deal of argument on that. I have very definite views on it that a lot of people do not have. I do not understand that anybody has advocated that some class of labor be excused by a blanket class exemption. The only case of that kind we had during the World War was the Emergency Fleet Corporation and the Shipping Board. If anybody was in there they were deferred from the draft just as long as they remained there. That class exemption proved to be the principal error of the draft. All of the slackers in the country went in there. That proved that any blanket labor exemption is wrong. The argument, however, centers around a different thing.

Third, is the very necessity of protecting the American people from exploitation. Ordinarily we rely upon the rules of competition and governmental restraint by law; but, in time of war, the laws of supply and demand are thrown completely out of kilter. You cannot take four and a half million men of the best young manhood between 19 and 31 out of this country and take them out, largely, from gainful occupations, without decreasing the supply of labor. The demand goes on; the demand is intensified, as it was in this last war, and food, rents, clothing, prices all become skyrocketed and the people are the victims of profiteers and extortionists. And that in itself is a sufficient reason, from the standpoint of the public good, to justify the exercise of this power as a means of protecting the public by the American Congress.

Then, getting a little personal, rising out of the World War, another very pertinent reason is that if you take a boy and pay him \$30 a month and then take \$15 of it away for his wife and his children, and you pay him in dollars that are worth 100 cents and ask him to maintain his wife and his family in dollars that, by letting the prices skyrocket, are only worth 50 cents, there is an element of protection there from the standpoint of which Congress is justified in making an approach.

Not only that, but probably the greatest factor in maintaining an army is the establishment and maintenance of a proper morale. The best way to destroy a soldier's morale, particularly if he is on a foreign shore or any place, is for him to feel that his wife and his dependents are suffering by reason of failure to have proper sustenance; which, of course, would be brought about by his wage remaining constant and prices skyrocketing so that they do not have enough money to buy things to eat.

Then there is that probably about which so much has been said but not exactly in those terms, when you speak about 22,000 millionaires who were created and the few who rose to their greatness upon the country's ruin. War never increases a nation's resources; it decreases them. Those individuals and those groups who achieve great financial independence, if the country's wealth is not increased, necessarily do it at the expense of the great masses of the people. In my judgment, that would be a sufficient ground, in all fairness and justice, on which Congress could reasonably justify the exercise of this power, and on any of those grounds, on the principle that the court will not interfere with the exercise of discretion by a legislative body; although there is no question but what there is ample reason for justification of the power to fix the prices of the things which the civilians will buy, as may be found necessary under an enactment of this kind, and rules and regulations that might be passed either by Congress or by agencies established by the Chief Executive to carry out the purposes of the act.

I have been around in a number of States. May I say to you gentlemen, personally, we are very grateful to many of you who in your own districts and your own States have, over a period of years, been selling, if I may say, your own constituencies upon this type of legislation. I am satisfied in my own mind that the hesitation that there was on the part of some industrialists, because this was supposed to be communistic in character, because it departed from the profit system in America, has been largely allayed. I feel now that many

of those groups who were suspicious of anything which came from the veterans' group as being militaristic and having some bug under the chip, and as possibly not being calculated sincerely as a basis to preserve to the Nation the blessings of peace—that that attitude to some extent has subsided a great deal and there are many groups now who are joining in the effort to have this principle enacted into law. I have probably been in half of the States of the Union. I have no question in my own mind there is rather a definite demand on the part of the American people, possibly incited to some extent by the situation in Europe, for the enactment of legislation of this character—first, as a deterrent to war by providing for a mobilization not only of man power, but the business and resources of the Nation and, secondly, as a basis for a permanent peace, if such is possible, on the theory that if you take the profit incentive out of war—and there is a respectful group of people in America who think that the desire for profit usually has or is apt to throw a nation into war; and if you make war mean something definite by way of service and something personal by way of sacrifice to every American citizen, then you will have established something not only for the preservation of peace to America, but, by example, something which if followed by other civilized nations will effect what all have been striving for for years, and that is something, some key, to open up the door to permanent peace.

In closing, may I suggest to you it is rather interesting to know that the first act of the Nebraska Legislature was to pass a resolution memorializing the Congress to enact into law this Sheppard-Hill bill. I will not read it; but, with the permission of the Chairman, may I have it incorporated?

The CHAIRMAN. Without objection, we will put that into the record. (The resolution referred to is as follows:)

Resolution memorializing the Congress of the United States to enact into law the Sheppard-Hill bill, commonly called the Universal Service Act, in the interest of world peace

PREAMBLE

Whereas the existing international situation is threatening the peace of the world to such an extent that every American citizen should be interested in any plan which has as its purpose the keeping of America at peace; and

Whereas veterans of the World War who now form the membership of the American Legion have from their knowledge of the problems and conduct of war evolved a plan known as the universal service act, which plan is approved by all other veterans' organizations and which provides for the draft of capital, industry, man power, and all other resources of the country, as well as men to fight, in the event of a national emergency, with equal service for all and special privilege and profit for none, thereby removing one of the greatest incentives for war, the profit motive; and

Whereas it is our belief that in the event of a future war a dollar should not be held of greater value than human lives or human suffering; and

Whereas it will not cost the United States one cent to place the universal service law on the statute books, and if fortune should bless us and there be no more wars, its enactment will not affect the life of the Nation, but should war come this law would enable us to meet it promptly and efficiently as a united nation in arms: Now, therefore, be it

Resolved by the Legislature of the State of Nebraska in fifty-second regular legislative session assembled: 1. That it is the sense of the members of this legislature that it will militate for the best interests of the United States of America if the Congress shall enact into law without delay S. 25 and H. R. 1954, the Sheppard-Hill bill, commonly known as the universal service act, for the sake of the promotion of world peace.

2. That the clerk of the legislature be directed forthwith to forward copies of this resolution, properly authenticated and suitably engrossed, to the President of the United States, to the Vice President of the United States as Presiding Officer of the United States Senate, to the Speaker of the House of Representatives of the United States, and to the United States Senators and Congressmen representing the State of Nebraska in the Congress to the end that our representatives in Washington may be speedily advised as to the sentiment of this legislature with respect to the immediate passage of the universal service act.

Mr. COLMERY. We ask your careful consideration again as you have always given it in the past. I will be very glad to answer any questions within my limited capacity. I realize in the face of many of you I am just passing across the stage during 1 year on a matter to which you have given careful thought and study for 14 or 15 years.

The CHAIRMAN. Do not you think, Mr. Commander, that legislation of this character is really a complement to the neutrality legislation; that they ought to go hand in hand together?

Mr. COLMERY. They should go hand in hand; but I would not like to see measures of that kind put in by way of amendments.

The CHAIRMAN. I did not mean they ought to go in the same bill at all.

Mr. COLMERY. Yes.

The CHAIRMAN. I mean do not you think that the demand for neutrality legislation will not be fully met unless this legislation also goes along with it?

Mr. COLMERY. Yes; I agree with your point, Mr. Chairman.

The CHAIRMAN. Mr. Taylor emphasized the fact that there was nothing in this bill that would draft labor as labor, that is, to draft labor to work in any plant, machine shop, or factory. As you read and understand and study the bill, is that your conclusion?

Mr. COLMERY. The American Legion has never been interested in and has always contended that the McSwain bill and now contends that this bill neither intends to nor does it effect the military conscription of labor.

The CHAIRMAN. In any shape, fashion, or form?

Mr. COLMERY. In any shape, fashion, or form.

Mr. RUTHERFORD. Now, Mr. Commander, supposing in the event of war, industry sat down and labor struck, what is the remedy?

Mr. COLMERY. You mean under this bill?

Mr. RUTHERFORD. Under this bill. Are you going to commandeer labor and say "You have to work at such a price"?

Mr. COLMERY. No; we are not commandeering labor at all.

Mr. RUTHERFORD. Well, you are setting the price of labor.

Mr. COLMERY. Controlling the management of industry. Now I take it, just like controlling any other business that might be impressed with a public service, under the same principle which gave rise to the Adamson law, that if the emergency was sufficient to create that law, probably under that power to control there would exist the power to fix a ceiling on the price of wages.

Mr. RUTHERFORD. Supposing, for instance, labor was not satisfied with the wages set and refused to work, or industry was not satisfied with the 5-percent profit and refused to go along and assist, how are you going to make them?

Mr. COLMERY. Well, under this bill, I think you can make industry; but under this bill I do not think you can make labor perform.

Mr. RUTHERFORD. Then why should you take a young man at work earning \$150 or \$200 a month and place him in the ranks at \$30 a month, and say to the man who stays home "You can do as you like"? It seems to me there should be some provision to place upon labor the same burden to assume their responsibility, as it is for the army of the Nation to take a man who earns a good salary and put him in the ranks at \$30 a month?

Mr. COLMERY. Well, there is a little difference. You cannot conduct a war by operating as a debating society. There is that difference between the group of men who are in the combat forces and the group in the Military Establishment. The Legion has gone on the theory they have probably a little more confidence than some of the gentlemen have in the ultimate reaction of the average American citizen in meeting his responsibilities in time of a national crisis; that the American working man did not get exorbitant wages because he desired to profiteer, and he was not responsible for it; that had there been a ceiling of prices maintained, so that the price of food, clothing, shelter, and so forth, had been kept down here, the average workingman would have been content, as a patriotic American citizen, to take a wage consistent with it and maintain the level. We have gone on that theory. I think there was a great deal of striking. As I recall, some one put into the record something about dissensions among employees and how they were straightened out.

The CHAIRMAN. If I might interrupt the gentleman there, Mr. Bernard M. Baruch, who was chairman of the War Industries Board during the World War, made this interesting statement before the committee 2 years ago, that whereas the idea seemed to prevail among some people, that labor had profiteered during the war, the idea was entirely erroneous; that the trouble was that labor's wages never went up proportionately to the increase in prices generally.

Mr. RUTHERFORD. That is a fact; there is no question about that.

The CHAIRMAN. Prices during the World War went up on an average 285 percent and wages increased nothing like proportionately to that high percentage.

Mr. DORSEY. Mr. Chairman, of course, a factor that entered in there, which most of us seem to overlook, was the cost-plus contracts. Management in many cases had no interest in costs; they were willing to pay labor as much as they could and pay for material without questioning prices because the higher their cost went the more profit accrued to them.

The CHAIRMAN. That is true.

Mr. DORSEY. Because of the cost-plus feature, they were not interested in keeping costs down in many cases.

Mr. MAY. I want to ask the commander just a few questions, Mr. Chairman. For the last few days I have been trying to study some of the constitutional questions involved in this proposal. I have been very much interested in the very clear statement of the gentleman on these propositions. I do not know whether you are a lawyer or not; I imagine you are.

Mr. COLMERY. I profess to be.

Mr. MAY. I would like to suggest at this point just one thing to you: In any war, we might say we have two armies, one the combat army

at the front and the other the industrial army in the rear. The combat army, as you have already stated, would become wholly impotent and could not do anything if the army in the rear laid down on them and did not produce the food, supplies, and clothing necessary with the arms and munitions to enable them to fight.

Now, then, in view of the fact that the emergency of war involves the question of the perpetuity of our Government, under which all property is preserved. I would like to have your reaction to the thought embraced in this one question: Under article I of the Constitution, which creates the legislative department of the Government, in subsection (8) of that article, it is provided what Congress can do, the specific powers delegated to it by the Constitution, among which is the power to declare and carry on war. Now, then, under section 9, I believe it is, of article I, is enumerated the things that the Congress cannot do, of course, in time of peace, and there is a large number of them. And there is only one in all of that number of the prohibited powers of Congress to which there is a single exception, and that is the one which says that the right to the benefits of the writ of habeas corpus—which means to take the body and deprive you of liberty—shall not be suspended or denied except, and that exception is in case of invasion or rebellion which involves the public safety. Those two things, invasion and rebellion, are in the nature of war; in fact, they are war.

Now, do you not think it would be an absurdity to conclude that the Congress that actually has the specific power to declare war should be precluded by limitations from successfully prosecuting the war?

Mr. COLMERY. Yes; I do. And may I state this to you in that connection: As I understand the system of a constitutional democracy, the first and most solemn obligation placed upon the democracy is that of national defense, under a plan as you have it in America—and that was America's contribution to the science of government—of a government set up to foster, promote, and preserve the life, the liberty, and the happiness of the individual citizen. Now, a government cannot do that and render that protection, as was said, for the protection of which rights governments are institutions among men, unless it maintains itself in that adequate strength. So that the power of national defense is greater; it is the power of self-sustenance and self-determination. It is, rather, the greatest and most solemn obligation imposed upon the Federal Government by the Constitution.

Mr. MAY. In the celebrated case of *McCullough v. Maryland*, to which you refer, in which Chief Justice John Marshall laid down what we might call into action the implied rule that Congress possesses the inherent power necessary to accomplish the main objective, do not you think that that case, taken with the late cases involving the question of condemnation of property by the Federal Government during the World War, and the fixing of prices of labor, or of wages under the case construing the Adamson law, that it is definite and clear and settled that the Congress does have this power that we are trying to apply in this legislation?

Mr. COLMERY. That is the position I take, Mr. May.

The CHAIRMAN. Are there any other questions, gentlemen?

Mr. FADDIS. In that connection, Mr. Chairman, I would like to ask the commander this question, in order to get his opinion clear on

that matter: Then you do not believe that the power of Congress to provide for the common defense is in any way limited by the taxing clause that precedes it?

Mr. COLMERY. By the taxing clause?

Mr. FADDIS. Yes; in paragraph 1 of section 8, article I, of the Constitution.

Mr. COLMERY. I would like to look at that before I answer that question. I will say this to you generally, though, following up what I said to Mr. May, that the only way a democratic government can maintain its strength is for the individual citizen, no matter in what capacity, to render any service that the majority, under a democratic form of government, determine is necessary to preserve the Government. That means any kind of governmental service that Congress determines, whether it be the paying of taxes, bearing arms in defense of the Nation or anything else. And no group has a right to arrogate to itself for reasons—

Mr. FADDIS. What I mean was—

Mr. COLMERY. I think those are fundamental; because, unless you concede those principles, there is not any such thing as a democracy and cannot be.

Mr. FADDIS. What I wish to arrive at is that the courts have held the power of Congress in enacting legislation to provide for the general welfare is limited; they have held that they are only able to enact laws to provide for the general welfare because they are empowered with the power to tax to provide for the general welfare. Then if the courts hold that, in that instance, is not there a danger there that at some time they will hold the same in respect to the common defense laws? It is conceivable that they might?

Mr. COLMERY. I do not get it that that is involved, Mr. Faddis. The only thing you have involved here is the possibility of due process of law, the confiscation of private property, or the freedom of contract, and there you get into the interpretation of "due process", which, as you recall, the court has never broadly defined, but always defines it in the light of existing conditions. And, of course, the circumstances of war would be a most compelling circumstance to be taken into consideration when you determine it at that time.

Mr. MAY. The fact of the matter is, the Supreme Court has never failed to determine it in favor of the power of Congress in time of war. Is not that true?

Mr. COLMERY. That is right. They have held in the *Nebraska case*, not so long ago, that a law that might be unconstitutional now, later, by changed circumstances, would be constitutional.

Mr. FADDIS. Then the power is only limited by the bounds of reason in case of war, under the common defense clause?

Mr. COLMERY. That is my judgment about it, sir.

Mr. FADDIS. That is mine, also.

The CHAIRMAN. Are there any further questions, gentlemen?

Mr. MAY. Mr. Chairman, I would like to ask one other question. On this question of the power of the Congress, or the President, to mobilize and require the laborers of this country to perform, I think you will find in the hearings of the last Congress, when we had this bill under consideration—or this proposition under consideration—that there is printed in the hearings a good many pages

of what is called the Code of Ethics of Organized Labor, put in there by some labor representative. They take the position that the record of our history shows that labor has never caused trouble in time of war and that it would be unfair to conscript labor into the service of industry even in time of war.

Now, let us assume the worst possible situation—that of an actual invasion by a foreign foe, our cities being bombed from the air, and the American Government out of steel and the products of steel, with no ability to get them except from the United States Steel Corporation and its numerous plants all over this country and subsidiaries; and let us assume there are 280,000 laborers in the steel plants of this country and the President of the United States, as Commander in Chief, would sound an alarm that the Nation was being overwhelmed—do you think that the Congress could not pass an act, or the President, as Commander in Chief, could not compel the performance of labor, of the fellows in those steel plants, if it was required to do it under those circumstances?

Mr. COLMERY. I think the power is in Congress. I do not think it is advisable to exercise it.

Mr. MAY. I am not suggesting it is advisable; I am just trying to say it would defeat the whole purpose if Congress did not have that power.

Mr. COLMERY. I think the power exists; yes, sir; but I think you get better service out of your industrial organizations of America where your artisans and mechanics and people with a given bent toward a special line of work are maintained in that line of work, as against those who have to go in and carry a pack and rifle and get into something new. I think you get better results if you have them go along in the ordinary activities.

Mr. MAY. In the World War there was skilled labor of the United States in all of the front trenches; is not that true?

Mr. COLMERY. There was. That is the reason the Legion has been opposed to disturbing it in time of emergency.

Mr. MAY. Let me make clear that I am not in favor of disturbing it, either; but I am trying to point out the powers of the Congress by this imminent situation I have stressed here, by saying if we did not have that power, not saying we are going to exercise it, we would be impotent ourselves to carry on the war.

Mr. COLMERY. Mr. May, if war comes, the homes, the lives, the property, the ideals, and the principles that have made it possible for 130,000,000 people to live in comfort and happiness are all at stake. It means self-preservation, and I doubt if there is anything under this Constitution that the Congress cannot do, if it wants to do it, if a war is declared.

Mr. ANDREWS. Mr. Chairman, I would like to ask a question.

Assume this bill, substantially in the form it is now, is passed and signed by the President, the main benefit, we will say, over a period of years—we all hope there is never going to be war—would be the effect it would have on public opinion. Is not that correct?

Mr. COLMERY. That is both here and abroad?

Mr. ANDREWS. Yes.

Mr. COLMERY. Yes, sir.

Mr. ANDREWS. Now, coming down to the effect—you probably know the bill better than I do—it seems to me the whole bill is in section 2; and if there was a war section 2 would give the President the power

over every other section in that bill; is not that correct, as affecting the price of labor, as affecting section 9, in the amount of the profits or excess profits?

Mr. COLMERY. It invades every other provision in the bill, in substance.

Mr. ANDREWS. In other words, this bill is to serve as a skelton scheme, as a sort of constitution, for taking profits out of war which would guide the then President. Is not that true?

Mr. COLMERY. That is right.

Mr. ANDREWS. But under section 2 he could go ahead and do anything he wants. Is not that correct?

Mr. COLMERY. Oh, no. Under the power to regulate prices and adjust them, he cannot regulate materials or resources.

Mr. ANDREWS. You can adjust them either up or down. He is authorized to make and publicly proclaim such adjustment; and such adjustment shall have the full force and effect under this statute of such price, rent, rate, commission, compensation, or reward before such adjustment.

Now, look over in section 9. I think we are all in general agreement on the ideas and principles of the measure, but it seems to me, of course, we have not defined the labor element, which was touched on by Mr. Taylor in his talk and which brought out that amendment offered by Mr. Connery last year; but getting into section 9, let us assume a company that has been making gyroscopes for 3 years, or some new type of radio, or something or other, has consistently lost money for 3 years and owes the banks, and one thing and another; what does "income" under that section mean?

Mr. COLMERY. I thought that was protected by giving authority to make proper adjustments for capital expenditures for war purposes. It might be well to say "capital expenditures or losses."

Mr. ANDREWS. I am merely asking: Do you think it might be advisable to put in some general classification there that would give the President a basis of going along in the thing?

Mr. SCHAEFER. I do not understand what is meant by "income", whether that is gross or net. It is not clear to me at all.

Mr. ANDREWS. I think it is very indefinite, the whole section. It says "capital expenditures for war purposes." Well, a company might have expended a good deal of capital in the last 3 years for no war purposes whatever. I am just wondering whether or not that might not be clarified and some sliding scale or formula included there which would be a guide for the President of the United States operating under section 2.

Mr. COLMERY. I take it that probably whoever drew that had in mind when war was precipitated and there was a necessity to manufacture something and somebody was asked to do it and they make a capital investment in plant, and do it for that purpose, that probably should be taken into consideration in calculating what their increased income had been. You did point out an example of losses which probably might also well be taken into consideration.

The CHAIRMAN. Are there any further questions?

Mr. MAX. I have this one question I want to ask: Suppose, as you suggested, that war is declared today and in the few years past some particular company that is making war materials had continually and continuously lost money, heavily lost it, ought there not to be

some provision in here, and does not in fact section 2 authorize the President to adjust those very things?

Mr. MERRITT. Does the word "expenditures" mean if a man makes up a balance sheet of whatever the expenditures may be, if it shows a loss, that condition is taken into consideration?

Mr. MAY. That word is "expenditures" in section 9?

Mr. MERRITT. In section 9. It is not going to make the expenditures up to show a loss. It would be bad bookkeeping for any corporation to show a loss in making up a balance sheet of expenditures.

Mr. SCHAEFER. Would not that be a question, primarily, for the Ways and Means Committee, Mr. Chairman, in the matter of taxation?

The CHAIRMAN. It would.

Mr. CLASON. Suppose a lot of people deal only in human labor, and taking specifically the steel industry, and now along comes a war and it puts on thousands of employees, perhaps, all over the country; but it does not have a lot of expenditures for new capital investment, for it happens to have a lot of material on hand—if you only allowed him to keep 5 percent of all income in excess of the average he has received for 3 years prior thereto, you are making that man do a tremendous amount of business without a commensurate return, as I see it.

The CHAIRMAN. I will say to the gentleman that Mr. Taylor suggested, in the first instance, that language is the existing language taken from the report of the War Policies Commission. I am rather inclined to think that language has to be amplified and perhaps made more detailed.

Mr. COLMERY. I have this general thought, Mr. Chairman, in connection with that. In the light of the fact the legislation has been pending so long, that this is one of those cases where exact justice in many instances will have to give way to the practical considerations, and we leave it with the committee and the Congress, without too much pride of authorship, to change that; and, if 3 years is not right, maybe 5 years is. I mean we are not sticking on any detail like that. What we would like to have is the principle enacted into law.

The CHAIRMAN. So far as the details are concerned, you are willing to leave that to this committee to work out?

Mr. COLMERY. Certainly.

The CHAIRMAN. What you are interested in, as you say, are the great fundamental principles embodied in the legislation?

Mr. COLMERY. Yes.

Mr. THOMASON. Are we to understand that wages are included in section 2?

Mr. CLASON. And the same as section 9, too.

Mr. THOMASON. That is, whether or not wages are included in either compensation or reward.

Mr. COLMERY. With the inclusion of the word "service", as indicated by Mr. Taylor, in section 1, for the express purpose of covering wages, then of course section 2 would cover wages.

Mr. THOMASON. If you grant the President the right to fix wages, then you invade this field of labor about which we had quite a bit of discussion at the beginning of the hearings. Then what do

you say about drafting labor? If you are going to fix wages, you are drafting labor, in effect, are you not?

Mr. COLMERY. No. Fixing a ceiling for wages does not draft anybody to work.

Mr. THOMASON. I am seeking information, because that is a pretty big field, and you have some contradictions there.

Mr. COLMERY. Unless you keep your prices on a parity with wages, then you have not accomplished anything.

Mr. FADDIS. You realize, then, that the dollar is only a commodity the same as a pound of coffee?

Mr. COLMERY. Yes.

Mr. FADDIS. And the value of your dollar is fixed by the value of whatever commodity you purchase with it.

Mr. COLMERY. Yes, sir.

Mr. CLASON. Mr. Chairman, what would you say in the case of a man who had been employed on one job of a different type at perhaps \$20 a week, and then he is suddenly called into some big plant, perhaps a shipbuilding plant, perhaps the plant of some manufacturer, and gets the prevailing wage there of \$40 a week? When we come to section 9, if that is applicable to his income, he will only be able to keep 5 percent of this increase of \$20 a week, or to keep only a dollar a week, while another man, working right alongside of him at the bench, is going to be able to keep the whole \$40 because he happened at the outset to have a job in that particular plant?

Mr. ANDREWS. Section 9 does not apply to the individual; it only applies to the corporation.

Mr. CLASON. Where is that?

Mr. ANDREWS. That is not clear.

The CHAIRMAN. I am sure that was the thought of the War Policies Commission, to apply it, as the gentleman from New York, Mr. Andrews, said, not to the individual, but to corporate groups.

Mr. THOMASON. But it don't say so.

Mr. COLMERY. Unless the report of the War Policies Commission said that is what it meant, I will state, frankly, I do not believe you can tell whether it applies to individual incomes, corporate incomes, or both.

Mr. THOMASON. It looks like it applies to both.

Mr. COLMERY. It looks like it applies to both.

Mr. CLASON. The word "corporation" is not in the bill at all.

The CHAIRMAN. Are there any other questions, or anything further you want to say?

Colonel TAYLOR. Just this as a practical suggestion: This bill, when it passed the House two sessions ago, went to the Senate and was referred to the Senate Munitions Investigating Committee, after which it was reported back to the Senate and then rereferred to the Senate Military Affairs Committee and rereferred to the Senate Finance Committee. It went over there an 8-page bill; it came back a 218-page bill. What the national commander has been talking about is a statement of principles that is embodied in this bill. It took the Senate Finance Committee 1 full year to consider it, and was finally reported last session, on June 10—of course, too late to be enacted at that session. And so, what the national commander is desirous of is that a short bill that expresses the principles involved shall come out of this committee, as it did two sessions ago.

In the Senate now it has been introduced by Senator Sheppard, chairman of the Senate Military Affairs Committee, so that at this time, when it leaves the House, it will go to the Senate Military Affairs Committee.

We are hopeful it shall be a short bill expressing principles, so that we can take it up expeditiously. Therefore we are hopeful that it shall receive the early consideration of your committee and that it can be acted upon early in the session of Congress.

I desire to express the appreciation of the national commander and the Legion for the generous courtesy that you gentlemen have extended to us this morning.

The CHAIRMAN. We want to thank the national commander and to thank you, Mr. Taylor, for coming this morning and making your presentation. We are very happy indeed to have had you.

Mr. FADDIS. Mr. Chairman, I have just one question.

Mr. Taylor, I believe it is also your hope and the hope of the national commander, and the hope of the American Legion, that section 9 in the end shall not be so twisted around and complicated as to provide a loophole for the profiteers to escape through.

Colonel TAYLOR. We have full confidence that the Congress itself will so word that section that it will cover every single detail.

The CHAIRMAN. We appreciate your confidence.

Mr. THOMASON. You gentlemen do not want a bill like it passed the House last time, do you?

Colonel TAYLOR. Not as it passed the House; as it was favorably reported to the Congress.

Mr. THOMASON. You would rather have none than to have the bill as it passed the House?

Colonel TAYLOR. I would not say that. We want the legislation.

The CHAIRMAN. We are very much obliged to you for your excellent presentation and thank you for coming.

(The committee thereupon went into executive session, at the conclusion of which an adjournment was taken to Thursday, Jan. 28, 1937, at 10:30 a. m.)

TAKING THE PROFITS OUT OF WAR

THURSDAY, JANUARY 28, 1937

HOUSE OF REPRESENTATIVES,
COMMITTEE ON MILITARY AFFAIRS,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Lister Hill (chairman) presiding.

The CHAIRMAN. The committee will kindly come to order. We are continuing the hearing this morning on H. R. 1954, a bill to take the profits out of war.

We are very fortunate this morning in having with us, as our witness, Mr. Bernard M. Baruch—I won't say of "New York"; because he is from South Carolina as well as from New York; in fact, he is a citizen of the whole Nation.

As you gentlemen recall, Mr. Baruch was the chairman of the War Industries Board, appointed by President Wilson, during the World War. It can be said, without any exaggeration, that there is no man in the country who has given more time, or more thought, to the subject of taking the profits out of war than has Mr. Baruch. He is generally considered, among those who have studied this subject, to be the outstanding authority in the country on the subject. I recall as far back as 1924 he appeared before this committee and made a most enlightening statement. When the War Policies Commission was set up, Mr. Baruch was the chief reliance and the chief guide of that Commission. He has written a number of articles on the subject. As I say, he has given of his time, of his personal fortune, of his efforts to see if we could not write this legislation into law and put an end to what we term "profiteering" in time of war.

Mr. Baruch is an illustration of the fact that a man may be a man of affluence and still be a patriot, and certainly we are delighted to have him here this morning.

Mr. Baruch, please tell us about H. R. 1954 and anything you may think of about the general subject covered by the bill.

STATEMENT OF BERNARD M. BARUCH

Mr. BARUCH. Mr. Chairman, I presume H. R. 1954 is the same as S. 25?

The CHAIRMAN. That is correct.

Mr. BARUCH. Because my notes are written on S. 25.

First let me, Mr. Chairman, thank you for the very kind remarks you made about me. I would like to take one exception and that is, when you said that I probably had interested myself more and knew about the subject than any other man. I want to take exception in a good many instances, but particularly in the case of Mr.

McSwain, the previous chairman of this committee, whom I am sure we all miss today.

The CHAIRMAN. You and Mr. McSwain worked hand in hand on the matter.

Mr. BARUCH. I think Mr. McSwain, from the beginning, has given more thought and more intelligent thought to this subject than anybody else. I do not even except myself.

Now, this bill I approve of in its entirety, because it carries out or has within it all of the provisions that are necessary to carry out the prevention of profiteering in time of war and to equalize the burdens of war and thus provide for the national defense, and promote peace.

In discussions of war I think there are two phases of it: one that may not come before this committee. That is to keep out of war by what we are now pleased to call "neutrality." The other is the one which comes before you gentlemen, that is, to be prepared for war if it comes.

I do not think any neutrality is worth anything except that which you yourselves can defend and insist upon and interpret yourself. Therefore any position we may take on almost any subject will depend largely upon our ability to carry that into execution; but, above all, to defend ourselves in case of necessity.

There are two changes that I would suggest in reference to this bill. I should add the word "services" when you speak of a proclamation regarding price rates, and so forth. I do not know why that was left out, but if you are going to regulate prices and want to keep the status quo, you must have the price of services in it.

Another item which you must add to this, it seems to me, in view of the fact there is in this bill section 9 [reading]—

That upon the declaration of war, and during the period of such emergency, there shall be imposed a tax of 95 percent of all income above the previous 3-year average, with proper adjustments for capital expenditures for war purposes by existing or new industries.

In view of that section I think you should add something to this effect, that you should broaden the base of the income tax and raise still higher, in case of war, the present rates on incomes, to the point of what the economists term "diminishing returns", but what I think we can better understand by saying, to the point that the taxation on income, both corporate and personal, should be raised as high as you can without stopping the production of things, in order that we can pay as we go so far as it is possible. That term I first heard used in this committee room by Mr. McSwain.

With those additions, gentlemen, I approve the bill most heartily. I am in favor of general legislation like this, leaving the matter to a continual study by the various departments involved, rather than putting in specific legislation at this time, because study and new discoveries and new methods would necessitate that anyhow. But the bill carries in it all of the powers that, from the experience I had and the contacts I have had since the war, are necessary.

In the conduct of a war we must not alone have in mind the winning and the fighting of it but what I may term the surviving of it. By "surviving of it" I mean that the country should be left in a good economic and social condition. Neither the economic nor social position can be good if you permit a soaring of prices and what we term, for want of a better name, "profiteering."

I believe that such legislation as this not alone would help to win the war quicker, because I think it would make people mindful of what our positions were at home and abroad in case we wanted to state them regarding our views internationally, but in case of a war we would be left without the great aftermath from which I think we are still suffering. It might interest you gentlemen to know that I saw only the other day a statement by a man whose name I cannot recall because it is a foreign name. This was a statement from a Geneva dispatch of some international study, that the cost of the depression so far was between 149 billions and 176 billions in 1928 dollars. I do not know what proportion he put down to us, but much of that could have been avoided if you had had this kind of legislation.

I am sorry I did not prepare any statement, because I thought all that was wanted of me was to say what I thought of this bill and then submit myself to such questions as the members of the committee wanted to put. If you have any other idea in your mind, Mr. Chairman, I would be glad to follow it.

The CHAIRMAN. Mr. Baruch, I would like to take you back to section 1 of the bill, which provides for a ceiling, and I want to ask you to give to the committee a picture, as you see it, of how that ceiling would operate in the event of war.

Mr. BARUCH. The idea of the ceiling was more to protect the civilian population. The Army and the Navy, or the Shipping Board, had the right to commandeer; but, if they commandeered, that only left the civilian population where they had to take what they could get, at any price they had to pay for it. The declaration of war would, because of the fact that everyone knows there would be an enormous demand for all kinds of things, put up the prices of things. So, in order to avoid that, there was suggested this idea of a ceiling which would be the top prices beyond which prices could not go. That ceiling of prices would be stated by the President of a date previous to the declaration of war when there was a fair economic market relationship between things and for services, goods, rents, and various things of that kind. That will prevent any further rises and the price-adjustment committee would immediately function for the purpose of moving down whatever prices were necessary, or moving up those which were necessary. All prices would have to be recommended by this committee and approved by the President, as was finally done in the World War. But the object of the price ceiling was to prevent the commencement of a spiral inflationary movement of all things.

We found out during the war it would not do just to fix the prices of a few things; you had to fix the prices of all things. That is the reason I have asked that you put in "services" here. I oppose and have opposed and do still oppose the conscription of labor, because it is not necessary. That is no. 1. No. 2 is it would lead to all kinds of abuses, and I am afraid that under a wrong direction labor might lose the rights it has been fighting for perhaps over the last century. But I think that "services" of all kinds ought to be included in any price-ceiling structure.

I do not know whether I have made clear what I mean by putting a ceiling on, and the reason therefor. The reason for putting a ceiling on was to stop the upward spiralling of prices, more to protect the civilian population who are living on wages or small in-

comes, or salaries and would be unable to protect themselves against those rising prices.

The CHAIRMAN. So often in speaking of legislation of this character you hear the word "freezing" used. There is nothing about this bill that would freeze anything, or make anything static?

Mr. BARUCH. No. That is a very unfortunate expression.

The CHAIRMAN. It is very unfortunate!

Mr. BARUCH. Yes. I used it myself and I am to blame for it. What I meant was to get a structure above which prices could not go and they would then be taken in hand for the purpose of adjusting them to the needs of the occasion.

The CHAIRMAN. You say by doing that you would keep prices down, keep them more or less normal, so to speak, and protect the civilian population, and that would make the transition from a war status back to a peace status a comparatively easy one, would it not?

Mr. BARUCH. Yes, sir. I think that would have more to do with the passage from a war status to a peace status. It would be easier with prices down, than it would if prices were up.

The CHAIRMAN. In the bill we have a certain provision here with reference to licensing certain industries or businesses. I wish you would go into that a little bit and illustrate the need for that, as you see it from your position as Chairman of the War Industries Board during the war.

Mr. BARUCH. In the Food Administration, they licensed; they had the power to do that. In the matters I had to deal with, we had no licensing power and the way we obtained such results as we could—and by no means do I claim they were perfect—was done by a system of priorities. But under this bill, you could license all industries, just as food was licensed during the war. I do not believe that business should be put under the War Department, any more than I think the War Department should be put under industry. I think it is all right to have the power to do all of these things in this bill; but, as long as you have the right to commandeer, you really do not need that extra power of licensing. But it is well to have it, in case of any recalcitrants.

The CHAIRMAN. Now as to the question of priorities, give us a little background from your experience as to the need for that during the World War.

Mr. BARUCH. The reasons for priority are, first of all, we had to settle the difference between the various forces of our own, like the Army and Navy, as to who should get manufacturing facilities and raw materials first. Then, when they took all they wanted, there was not much left for the Allies, or the associated governments, as we were pleased to call them, and practically nothing for the civilians who were left to scramble for themselves.

Priority was established for the purpose of giving a thing to that user who could use it for the quickest winning of the war. In many instances in priority, by giving increased transportation or increased facilities, or further labor employment, it would increase the production of a thing. Our priority also would decrease the consumption by cutting off, either entirely or partly, the use of material, or the use of labor, or the use of transportation. It was necessary in order to readjust not only the departments, but to see that the depart-

ments did not use unnecessarily materials which it did not need at the moment but which should have gone to the civilians.

There has been not very much thought given to the civilian population who are at home, except by those who had the practical problem during the war. That is the reason I bear down on the fact we ought to have a ceiling for all prices, ought to have priorities to settle differences between departments and see that they do not take things they do not need until they do need them. But "priority" is of absolute importance and of the greatest importance over everything else in a war—who should have a thing first.

The CHAIRMAN. Of course, under this bill, the President would have ample authority to determine that?

Mr. BARUCH. Yes, sir.

The CHAIRMAN. As the bill is now drafted?

Mr. BARUCH. Yes, sir.

The CHAIRMAN. Gentlemen, I should have said in the beginning, in presenting Mr. Baruch, that he was the chairman of the committee which President Roosevelt set up 2 years ago on this question. Gen. Hugh Johnson and Gen. Douglas MacArthur, then Chief of Staff, were the other two members of the committee.

To make for orderly procedure, I am going down the list of the committee members and give an opportunity to any member desiring to ask questions. Mr. May?

Mr. MAY. Yes, Mr. Chairman.

Mr. Baruch, as I understand this proposed legislation, it is a character of legislation that does not become effective or operative until after the declaration of war?

Mr. BARUCH. Until after the declaration of war and Congress declares it as of a major importance. A war, for instance, between this country and a smaller country like Mexico would not require this necessarily, unless Congress said so. The power still remains in the hands of Congress to declare when an emergency exists.

Mr. MAY. In other words, this legislation would place in the hands of the President, rather rudely stated, a club with which to strike whenever the time came?

Mr. BARUCH. Yes, sir.

Mr. MAY. And he would be the judge of when that happened after either the declaration of war or any emergency of a major importance?

Mr. BARUCH. Yes, sir.

Mr. MAY. I was somewhat interested in your references to the subject of neutrality. As I understand this legislation, it is in the nature of an aid to neutrality, and the ultimate objective is the prevention of war and the maintenance of peace, as well as the carrying on of war.

Now, on that subject, I would just like to have, for my own benefit especially and for that of the committee as well, the benefit of your judgment and opinion as to where neutrality hooks into this kind of a bill and whether or not we are more apt to bring about violations of neutral relations by trade than by any other means?

Mr. BARUCH. As I said before, or as I wanted to say, I think it is important in a world of alarm such as we are in now that this country should, so far as it is possible, state what its position is in regard to trade and commerce in case of war. But no matter what

we say, it would not be worth anything if we were not in a position to enforce it.

If, for instance, let us say, in the World War, we were as well prepared as we are today, and if the world knew we could fight as they now know we can fight and they know we now can mobilize, and that we are not just a nation of traders and merchants without any souls or principles—if they had known that and we were prepared, I do not think Germany would have sunk our ships, nor do I think Great Britain would have had her warships outside of New York Harbor and held up every American ship that went out to find out whether the British consul in New York had cleared its papers; nor do I think England would have stopped our ships in other ways and rifled our mails, and we would not have had the famous *Dacia case* and the other shipping cases. If England and Germany had known we were prepared to fight and we had said "This is our idea of neutrality", they would have respected it.

"Neutrality" means so many different things, Mr. May, to so many different people. I think there is tremendous confusion about the word. I have tried to do what I could to clarify it. I think "neutrality" to the most of us, to most Americans, is an effort to express a passionate desire for peace and to mind our own business. That is what we mean when we say that we want to be neutral. Then when you start in to be neutral, you find it is not so easy to be neutral. There "ain't" any such animal as neutrality.

MR. MAY. That is just what I want to hear you say, because that is just what I think.

MR. BARUCH. No matter what position you take, you are taking a position for or against some belligerent. I can go into that if you want me to.

MR. MAY. Right there, I would like to ask you this one question: In our efforts to be neutral, do not you think in the event we undertook to trade with belligerents during wartime that we ought to trade with every one of them exactly alike, and in not doing so, we are liable to provoke conflict?

MR. BARUCH. Yes, sir. In regard to that, I can state to you in a few minutes what my ideas are.

Although it is not "neutrality", but because of its sinister connotations, I do not think we ought to be in the business of shipping lethal instrumentalities—that is, what we call munitions—to any belligerent. That is no. 1. No. 2, I would not lend them any money. No. 3, I would not ship anything to them under cover of and protection of our flag.

I would not go so far as to prevent an American citizen from sailing on or shipping on a belligerent ship, but he would have to do it at his own risk and not receive the protection of the flag. I would not say, to repeat myself, that they cannot do so; but I would say: "If you do do it, you have to do it at your own risk, because you get all the profits from it, but the flag will not follow you."

I would go a little further still and say that any belligerent or anybody can come and get anything they want, provided they pay for it in our ports "on the barrel head", and when it leaves our shores it is not our business. It is not so much the buying and selling of things that brought us into the war as the shipments leaving our ports. Then you come to the great question of what a blockade is,

and what is search and seizure, and, above all, what is munitions—what is contraband of war.

I do not think there is anybody that can tell us what "contraband of war" is now, under modern conditions, because it is not the Army and Navy who alone fight these wars; it is the civilian people behind the lines that have to be taken care of. As I said, I would say, "You can come and get anything you want." I would not give up the right for Americans to travel to or from a neutral country; but when they are traveling, they would have to go with clean hands and not for the purpose of getting around to the protection of the United States flag when they traded directly with belligerents.

Of course, we are giving up some of the rights that we have heretofore maintained, but I believe that this is a practical way of keeping out of war. As I said, I would not stop belligerents or neutrals from coming and getting what they wanted, because if you did, that is a declaration of war. If, for instance, we got into war on the Pacific and we had put into effect the stoppage of the shipping of raw materials, how would we feel if England and other countries said: "Very sorry, but you cannot have any rubber, you cannot have any nickel, you cannot have any manganese"; and another country said, "You cannot have sugar" (because we do not produce enough); or "You cannot have coffee and you cannot have tea", and various other things that do not come to my mind at the moment? That would be a declaration of war against us, would it not? We are a nation on wheels, yet we do not produce any rubber.

I think we have to consider all those things. So, taking the question by and large, I have always felt the best position on neutrality is the one I have stated. I do not give it as dictum; I am not the source of all wisdom: but I think that is the one that is best for us in the circumstances to meet this desire for peace at any price.

Mr. MAY. Going back to the title of this bill, the objective stated there ends with the phrase "and promote peace." I think that is important, because this is a measure to keep out of war, prevent profiteering in time of war; and I have always believed adequate preparation is the surest guaranty of peace, and in that way we make our War Department a department of peace rather than a department of war. Is not that right?

Mr. BARUCH. Yes, sir.

Mr. MAY. Is not that probably what it ought to be?

Mr. BARUCH. Yes, sir. If you have the power to defend, people would not "monkey" with you.

Mr. MAY. That is right. Now, I was impressed very much by your reference to the economic and social conditions resulting from any war. I do not want to raise any political issues here, and it is not with that intent that I ask this question—

Mr. BARUCH. We are still in the majority, Mr. May. [Laughter.]

Mr. MAY. Yes; but do not you think that, as a matter of fact, as a direct consequence of the last great World War, this depression is one of the disasters resulting from it?

Mr. BARUCH. Certainly, sir.

Mr. MAY. It could not have come from anything else to the extent it did come, except it was facilitated and aggravated by speculation?

Mr. BARUCH. And all of the other dislocations that come with war,

Mr. MAY. Yes; and they are so numerous it would take us all day to name them, if we undertook it?

Mr. BARUCH. Yes, sir.

Mr. MAY. If I am not mistaken, it was former Secretary of War Baker who made substantially the statement here before this committee on this legislation, I think, 2 years ago, that the problem of demobilization of our armies after the World War was a more difficult one in reality than the mobilization of the raw recruits that we took in in the beginning. And I think he stated that this legislation would facilitate the demobilization of an army, if it operated effectively. What is your view about that?

Mr. BARUCH. I do not know what the comparative difficulties are. They both were very difficult. But there is no question about the truth and fact of his statement that such a bill would make it easier to demobilize—such a bill as you have here would make it easier to demobilize than it was in the last war. Under this you can pass from peacetime to wartime status and from wartime to peace status much easier than any country has ever been able to do heretofore.

Mr. MAY. And in the interim, or during the period of the war, protect the civilian population from speculation and unusual prices?

Mr. BARUCH. Yes, sir.

Mr. MAY. In other words, if we take a soldier and draft him into the service at \$30 a month at a time when the cost of living is 50 percent and it goes to 100 percent, he is then in fact receiving only half of what he was expected to get—in other words, \$15 a month—for the support of his family. Is that the way you think it works?

Mr. BARUCH. Quite right, sir. And then the people who are left at home—they are worse off still.

Mr. ANDREWS. Mr. Baruch, directing your attention to the bill itself, you, of course, probably better than I, are aware of what happened, so far as this bill is concerned, in the Senate at the last session. You know the history of this bill in the Senate at the last session?

Mr. BARUCH. Yes, sir.

Mr. ANDREWS. It seems to me everyone is pretty well agreed we should have some sort of measure like this which would apply in event of war. Looking to the future, and I think largely as a result of what happened in the Senate, the majority opinion of those interested in a bill of this type—and as I heard the American Legion say—is that about all you can do is to lay down the broad general precepts under which the President, in the future, could conduct war and carry out the ideas which we have.

Now, directing your attention specifically to section 9 and to section 2, it seems to me that section 2 almost in any event supersedes section 9. If there was anything wrong under section 9, the action of the President is amply provided for under the previous section 2 to correct it, I think.

Mr. BARUCH. You think they are in opposition?

Mr. ANDREWS. No; I think section 2 imposes itself over section 9.

Mr. BARUCH. Well, they both are necessary.

Mr. ANDREWS. Let me get down to just one or two thoughts. These two sections and the two thoughts which seem to produce all of the conflict between the House and the Senate, are the thought in section 9, where the Senate rewrote section 9 into I do not know how many pages, 60 or 70 pages—

The CHAIRMAN. Two hundred and eighteen pages.

Mr. ANDREWS. In other words, the Senate's attitude and the attitude of those on the committee was that we should write a whole tax basis which would automatically control profits in war and I am now of the opinion if section 2 is properly administered by the President, section 9 is superfluous.

Mr. BARUCH. No; we ought to have both.

Mr. ANDREWS. What is "income" in your opinion, under section 9?

Mr. BARUCH. Everything that comes in.

Mr. ANDREWS. Whose income?

Mr. BARUCH. Incomes of corporations and businesses.

Mr. ANDREWS. Take a man working for \$20 a week as against some man working for \$25 a week, would it include him?

Mr. BARUCH. No; I think what we refer to would be the 3-year average would cover whoever would be affected.

Mr. ANDREWS. And his labor coefficient?

Mr. BARUCH. That is the reason I suggested adding a section 10. Under the present law, the base is not very wide and I rather favored the suggestions of the Senate of widening the base and increasing the tax.

Mr. ANDREWS. There are any number of questions as to what would be proper allowances, what would be proper adjustments for capital expenditures. You take a company might have lost money for 3 years; they may have been a little gyroscope company—

Mr. BARUCH. Then they would not have any tax to pay.

Mr. ANDREWS. They would not have any tax to pay at all?

Mr. BARUCH. If it lost money, it would not have any tax to pay.

Mr. ANDREWS. I am saying if it lost money for 3 years, and now along comes a war and they get a big war order. What is going to be the basis of determining their profit. Are you going to figure only the money they made from the war order, or are you going to consider their losses?

Mr. BARUCH. That would require some working out. That is the reason I would leave it the way it is.

Mr. ANDREWS. You are a practical businessman, and you say to add section 10; yet the Senate felt so strongly on this subject that they added 200 pages. In other words, this is a tax matter under section 9 which ought to go to the Ways and Means Committee.

Mr. BARUCH. As long as you have section 9, I want to put in section 10 that I did suggest. If you are going to talk about imposing a tax, you are not broad enough; because you ought to impose the tax by broadening the base and increasing the rates. But that was a matter I did not know whether you wanted to discuss here, or not.

Mr. ANDREWS. You get into a question of the same things the railroads get in in your recapture clause.

Mr. BARUCH. Yes, sir.

Mr. ANDREWS. I am just asking, do you think it would be a wise thing to put a bill before the House from this committee, realizing it must go to the Senate, in the indefinite language that section 9 is, or how far would you go if you wrote a new section?

Mr. BARUCH. I would not object to section 9 if you put in section 10 and leave the writing of that bill, as it will have to be, to the tax experts. The Treasury is going to have the last say on that, as

you know; but, if you declare the general principle, it seems to me you will have a good instrument in the bill as a whole to do what you want to do.

Your objection is one of the reasons why I do not feel—let me put it this way—it is not wise to make too specific and definite the instrumentalities, the limitations, under this bill, but we should leave them to the future to determine.

Mr. ANDREWS. Of course, if the President carries out the provisions of section 2 properly, no section 9 is necessary.

Mr. BARUCH. Oh, yes.

Mr. ANDREWS. Section 2 is a recheck on section 1, on the power.

Mr. BARUCH. Well, in section 2 you say that the prices shall not rise; but even with the prices, let us say, of today the corporations and individuals do make money, do they not?

Mr. ANDREWS. That is true.

The CHAIRMAN. And they might get an enormous increase in business.

Mr. BARUCH. They might have full production, and their earnings would increase very, very largely. You have to have sections 9 and 10 in order to recapture those increased earnings that they make from the war.

The CHAIRMAN. But that they make from normal prices?

Mr. BARUCH. But make from normal prices. As you doubtless know, if you are doing business and doing business at 50 percent capacity, you make a certain amount; if you go up to 60 or 70 percent capacity, you make more, because your overhead is going down comparatively as the volume goes up, and if you do a business of 100 percent capacity you would make profits that were very, very large.

Mr. ANDREWS. Suppose the United States Steel Corporation, after war was declared, got Government orders which necessitated an expenditure of \$40,000,000 to increase their facilities—and I am just taking the United States Steel Corporation for the purpose of illustration—now the question comes up of how are you going to depreciate that? Are you going to do it on a 10-percent basis, over 10 years, or what is going to be done under this bill in this connection?

Mr. BARUCH. To give only a broad idea, I do not think there would be any difficulty about handling that when we come to it; because I think we are giving the power to do that here—make a proper adjustment for capital expenditures for war purposes by existing or new industries. Now, when you start into that, you are going to get into an interminable discussion. For instance, the War Department says they ought to get 6 percent. I do not think they ought to get 6 percent, or 10 percent, or whatever it is.

Mr. MAVERICK. Mr. Chairman, I would like to hear particularly that part where Mr. Baruch was talking about 6 percent.

The CHAIRMAN. Mr. Baruch, will you repeat your statement with reference to the 6 percent profit, so that Mr. Maverick can hear you.

Mr. BARUCH. If a company—and the most of these things are corporations—have to increase their facilities for war purposes, there will be a question of how they are going to get paid. In this instance, Mr. Andrews said an expenditure of \$40,000,000 by the United States Steel Corporation. Well the United States Steel Corporation certainly won't want to spend \$40,000,000 which is going to be a dead asset after the war; so some adjustment will have to be made. If the

Government, for instance, furnished the money, they could own that plant and what the steel company would get out of running it would be a very small amount. They would not get 6 percent in that instance; it would be more or less a nominal fee. But if the Steel Co. put up the money and were going to own the plant and were going to have a right to amortize it, I would not pay them 6 percent. If they could amortize it out of the profits, I think it would have to be a rate smaller than that. I do not think there can be any objection on their part.

Mr. MAVERICK. There is a difference between 6 percent being made on the sale of merchandise and 6 percent on the capitalization of a corporation, or its capital assets?

Mr. BARUCH. A very great difference, of course.

Mr. MAVERICK. There might be a 100 percent or 200 percent difference over a year?

Mr. BARUCH. Yes, sir. I am talking about the investment and not the turn-over.

Mr. MAVERICK. Right; if you say 6 percent on every pair of shoes made, it might be 100 percent profit on the capitalization.

Mr. BARUCH. It might be a thousand percent.

Mr. MAVERICK. It might be a thousand percent?

Mr. BARUCH. I am talking about the return on the investment, sir.

Mr. MAVERICK. Of course.

Mr. THOMASON. Mr. Baruch, just what is section 10 you would add to this bill as qualifying section 9? I did not catch what you had in mind.

Mr. BARUCH. My thought was, as long as you touched on the tax matter, it should be covered more fully. I think it is proper for this committee to recommend a tax, because the bill falls down unless you cover the question of profits. The section 10 is an addendum to the effect that the base of taxation should be lowered, widened, and the percentage of taxes should be increased to the point of what economists call "diminishing returns". I say to the point where it won't stop the production of munitions. Because if we keep our prices down and have an enormous volume, there still will be enormous profits to be made and we want to skim off as much of that profit as can, so as to pay as we go along, so that the debt won't be so great at the end of the war and you won't have the social aftermath.

Mr. THOMASON. So you suggest another section along the lines you just discussed there?

Mr. BARUCH. Yes. I have no doubt when the bill is rewritten by the Treasury people or the Finance Committee of the House or the Senate they will do something of that kind. I say "I have no doubt"; nobody has told me so.

Mr. ANDREWS. How are they going to rewrite the bill; when are they going to rewrite the bill?

Mr. BARUCH. I think there ought to be a declaration of general principles.

Mr. ANDREWS. You mean after it gets over to the Senate?

Mr. BARUCH. I do not know where it is going to be written, sir. I refer more to the tax features.

The CHAIRMAN. There is absolutely nothing to prevent this committee calling in the Treasury experts and getting their advice and

help on this matter, and that is just exactly what we ought to do, and I suggest we do it.

Mr. THOMASON. That is the reason I asked you for a statement along that line, so that we might have a basis upon which to work and bring the Treasury experts here and try to thrash the thing out here on a basis, as you say, of the general principles and not a lot of details that will leave the bill all botched up, as it was the last session.

Mr. BARUCH. I have always understood heretofore that the various committees of the House and Senate are—I won't say "jealous"—but diffident about having other people write their measures.

Mr. THOMASON. They are gradually getting away from that. [Laughter.]

Mr. BARUCH. It seems to me when such an integral part, such an important part, of this bill has to be limitations on the profits and a suggestion as to the manner of doing it, that the House Military Affairs Committee should go as far as they can.

Mr. THOMASON. One other question, because I know all of the members want to ask you a question or two and we necessarily must be brief: Do you understand that wages are included in sections 1 and 2?

Mr. BARUCH. Not yet; but they ought to be.

Mr. THOMASON. You think they ought to be?

Mr. BARUCH. Yes, sir—"services."

Mr. THOMASON. You do not think, then, that "wages" would be construed under sections 1 and 2 as "rent" or "compensation"? There is no mention in either section as written of "wages" or "services."

Mr. BARUCH. I suggested inserting the word "services" in my opening statement.

Mr. THOMASON. Pardon me; I was a few minutes late. You do suggest, then, adding the word "services"?

Mr. BARUCH. Adding the word "services"; yes, sir. By "services" I mean the broader term.

Mr. THOMASON. And by "services" you mean "wages"?

Mr. BARUCH. "Wages"; yes.

Mr. THOMASON. Whether they be services of a day laborer or professional man, they would still be "wages"?

Mr. BARUCH. Yes, sir. And you cannot have a bonus put on them, you know, of \$100,000, either.

Mr. THOMASON. No. That certainly must not be done.

Mr. BARUCH. I was not referring to the soldiers' bonus. That does not mean, of course, if the cost of living went up, for instance, there would not be an advance in the price of services.

Mr. THOMASON. I understood you.

Mr. FADDIS. Mr. Baruch, in section 9, do you believe that any attempt to enlarge upon that section or provide for specific instances, such as Mr. Andrews brought out, might result eventually in providing a lot of loopholes through which those would escape that we wish to catch by that section?

Mr. BARUCH. You know when a man wants to dodge, it is pretty hard to catch him. But I believe the enforcement of the Treasury's rules has advanced tremendously in the last few years. I do not know how much, but they have learned how to enforce the laws, and they have learned a great deal about the conduct of business and proper charge-offs and all that kind of thing. I think, com-

pared with the World War, we are in an infinitely better position. The Treasury has a corps of experts that are staying on there and learning how to stop all of the holes when they appear. Of course, they cannot catch all of the delinquents, no more than the police always catch all of the murderers and thieves, but they get the most of them.

Mr. FADDIS. Do not you think it is particularly important that this committee should watch that section very closely and not permit anything like that to occur?

Mr. BARUCH. Unquestionably. I have an idea the Treasury fellows will watch that pretty closely, because, that being their job, they do not want anybody to get away with anything there.

Mr. FADDIS. I hope they have improved since the last war.

Mr. BARUCH. Well, during the last war they did not know very much.

Mr. FADDIS. Not very much; no. They admit that.

Mr. BARUCH. For instance, in the last war one of the things that was almost a scandal was the cost-plus, and that was due more to the fact that there was no ceiling, and you could not tell about the prices, you see.

Mr. FADDIS. I have been in the contracting business, and I would rather have a cost-plus contract any day than any other kind of contract.

Mr. BARUCH. But under this bill, you know, the prices would not go beyond a certain price. I am not suggesting a cost-plus contract but only showing the difference between the position of the Government today, when it has a ceiling over prices and can adjust all prices and the prices of everything. Now, one of the terrific problems we were faced with but never had a chance to deal with was the rise in rents. Under this, there cannot be any rise.

Mr. MAVERICK. We ought to do that right now. We need a slum-clearance project for Congressmen.

Mr. THOMASON. As applied to Washington, D. C.

Mr. BARUCH. That is the idea of the ceiling of prices. It is going to simplify a lot of those problems, and you will find, for instance, so far as the Treasury is concerned, that they have learned a lot since the World War.

Mr. FADDIS. Another thing, Mr. Baruch: In your investigations under this last board, did you investigate anything about the conditions in Germany during the war, as to how they functioned? My opinion is that Germany virtually had a situation forced on them by reason of their inability to have commercial intercourse with the rest of the world that would be very much like one under the provisions of this bill.

Mr. BARUCH. Well, they never did it as well in Germany as we did here, with all of our imperfections and shortcomings. Of course, they not only had a situation forced upon them, but we kept forcing it on them. One of the things that is very little known today is what we called the blockade. All the time we were restricting the flow of stuff to Germany, even through Switzerland, Norway, and other countries. And of course Germany kept getting in a more desperate situation every day. But they did not do the job so well and they underestimated what the Allies could do in stopping the first shock of their impact, and they over-estimated the amount of stuff they had on hand.

Mr. FADDIS. Yes; there is no doubt of that. But did you make any determinations in regard to Germany such as this—I hardly know how to state it—that the money in that nation, due to the fact it was mainly kept in there, was sufficient to carry on the needs of the war, in a financial sense?

Mr. BARUCH. No.

Mr. FADDIS. You did not reach any conclusion as to that?

Mr. BARUCH. They were in a pretty bad way. The home front crumbled before the military front.

Mr. FADDIS. Oh, yes; I know that.

Mr. BARUCH. That was the complaint Hindenburg made about America. He said we knew how to make war. Of course they were pretty well exhausted; we were fresh; but their home front crumbled. They could not get anything. For instance, we stopped Swedish iron so they could not get it in there. And they had spent about all the money they had, you know, because they borrowed money and then could not pay.

Mr. FADDIS. But a bill of this kind would make the money in this country at the time of our beginning the war more nearly sufficient?

Mr. BARUCH. Oh, yes.

Mr. EDMISTON. Mr. Baruch, you stated you had always been opposed to including labor in a measure of this kind.

Mr. BARUCH. The conscription of labor, sir—I was opposed to the conscription of labor.

Mr. EDMISTON. I see. If you had the word "services" in there, it looks to me pretty nearly like you are not conscripting labor, but you are certainly fixing the wage.

Mr. BARUCH. No; I do not think so, sir. But if you leave the price of labor out and have the departments and everybody scrambling for it, the cost of everything will go up, even to the laboring man and the farmer. If you want to have the price structure remain level, so far as it is possible, you have to have all prices in there. And by "services" would mean the services of everybody, no matter whether it was \$2 a day, or \$20 a visit from a doctor, or lawyers' fees, or anything of that kind.

Mr. EDMISTON. That is all.

Mr. SCHAEFER. I am particularly interested in this section 9. In your opinion, could not this section be rewritten so that it would not necessitate a tax bill?

Mr. BARUCH. Rewritten into a new tax bill?

Mr. SCHAEFER. Yes.

Mr. BARUCH. If you add to section 9 what I propose as section 10, you will get a new tax bill.

Mr. SCHAEFER. In your previous testimony, you referred to profits and earnings.

Mr. BARUCH. Yes, sir.

Mr. SCHAEFER. In this section 9 as written, all it refers to is "all income." That is a pretty broad statement—"all income." What does that mean; net income or gross income?

Mr. BARUCH. It means net income—I presume it means net income; I do not know. And at present it would mean, if you did not widen the base and increase the brackets, the amounts, that people who today do not pay, say from \$2,500 down, would not pay anything.

Mr. SCHAEFER. Is there any way, in your opinion, that this section could be rewritten that would not require a long tax section?

Mr. BARUCH. It all depends on the fellow who draws it up. I mean sometimes they like to go into every single detail in the bill; but I think I would declare it as a general principle, because the Treasury will have to rewrite that bill at the time. For instance, if there were no recovery here and we had to go on raising taxes—because we would have to get the money somewhere to pay for the things we want to buy—if war broke out they might be so high they could not get any higher. Therefore, I would rather have the general principle carried into the bill than to detail it.

Mr. SCHAEFER. That is what I am driving at—is there not some way we can incorporate something in section 9 in general, rather than in detail, covering the matter?

Mr. BARUCH. Yes, sir.

Mr. SCHAEFER. You referred in section 10 to something about broadening the income tax. Immediately when this bill is presented to the House, you would have some Members who would be in favor of an increase and some who would be in favor of a decrease, and that might prevent the passage of this bill.

Mr. BARUCH. If you would like my personal opinion on that, I think they are going to add it whether you put it in here, or not. As long as you asked me to give my opinion, I must give you my opinion of what I think is wise and proper in order to make a completed bill. When the bill comes out it is bound to have that provision in it. Whether you should go into great detail or not is another matter, but if you do not put it in there others will. I am not an authority on the subject and have no information on it, but it seems to me it is a part of any bill to accomplish these purposes. I quite understand it is not a part of the function of the Military Affairs Committee to write a finance bill.

The CHAIRMAN. It is often the case, though, Mr. Baruch, and we have it arise time and time again, that in endeavoring to cover some big subject by a great piece of legislation you have to cover many phases—taxation as well as other phases. For instance, we often find the Ways and Means Committee bring in a piece of legislation that covers a matter that really comes directly under the jurisdiction of this committee. I recall the Ways and Means Committee brought in the so-called N. R. A. bill and on to that bill was put the Public Works Administration, and under the Public Works Administration there was an authorization for certain Army housing. Now, the matter of authorizations for Army housing belongs to this committee. But often in that way you find an overlapping of jurisdictions, particularly where you are dealing with some great problem such as we are dealing with here.

Mr. SMITH. Mr. Baruch, as sections 9 and 10 are at present written or suggested, the Treasury could not collect the taxes; they are too indefinite as it stands? Is not that your opinion?

Mr. BARUCH. With such ideas as I have suggested, under section 10—I have not written it out—the Treasury would write a bill.

Mr. SMITH. That would have to be passed.

Mr. BARUCH. That would have to be passed by the finance committees of the House and the Senate.

Mr. SMITH. That would have to be passed by the Congress.

Mr. BARUCH. Yes, sir.

Mr. SMITH. Now, if we leave these sections as general as they are now, we are not doing anything effective to take the profit out of war; because they are not workable and a tax bill cannot be based on these as tax legislation, unless the tax is actually written and put in effect. Is not that your opinion of this section 9 as it stands now?

Mr. BARUCH. Well, not with the addition of 10.

Mr. SMITH. With the addition of 10?

Mr. BARUCH. They undoubtedly would be broad enough for the Treasury, the same as these other sections would be for any organization the President would put in to carry on the war to enable them to act.

Mr. SMITH. Well, is it not too broad for the Treasury to act on now? It is my opinion that no court would uphold an attempt by the Treasury to collect taxes under the present section 9, because it is altogether too indefinite. Someone has to write a tax bill. Now you say the Treasury should prepare a tax bill. I do not think this does or can give authority to the Treasury to prepare its own tax bill and collect taxes under it. It has to be passed by the House and the Senate, and the question is whether—

Mr. BARUCH. You mean the bill itself?

Mr. SMITH. The tax bill.

Mr. BARUCH. Unquestionably.

Mr. SMITH. And the question, it seems to me, is whether we should leave an indefinite section 9 and section 10 in here, which will have no effect, and pass the balance of the bill and tell the people we have passed a bill to take the profit out of war, when it does not actually reach that objective; or whether we should attempt to work out a complete tax bill which would go into effect in time of war.

Now, whether we can do that so far in advance without, as I think Colonel Faddis suggested, providing advance notice to people who might want to find loopholes later, it seems to me that is the first problem we have to meet in this bill.

There is one question also I want to ask you on this price fixing and fixing of priorities. That was tried, as I understand, with considerable success late in the war?

Mr. BARUCH. Yes, sir.

Mr. SMITH. Was there any attempt then to enjoin the activities of the Board in fixing prices?

Mr. BARUCH. Never.

Mr. SMITH. No attempt at all?

Mr. BARUCH. No.

Mr. SMITH. So that it was not tested out during the war in court?

Mr. BARUCH. No. You see, we never really had any real power, direct power, to fix prices. We could commandeer for the Army, or Navy, or Shipping Board, or Food Administration. They had the right to commandeer. We had to get what we called voluntary agreements by the power of priority and public opinion.

And another very important item—I am glad you brought this up—was that we could fix the price for the Army and Navy, and doubtless the Army and Navy could have taken what the Allies needed; but here was the great question of the civilian population, which those who did not really take a part in it cannot understand or appreciate. Here were these people, who were just as helpless as these flood sufferers are today. So, in fixing prices, we had to get an agreement that

would cover not alone the Army and the Navy—where we had the power to commandeer—but also had to get them to agree they would take the same price for all of the product and they would distribute that according to our priority orders. But here you have a much broader power.

Mr. SMITH. But there was no test then of the constitutionality?

Mr. BARUCH. There never was—every test made after the war has been defeated; but there never was a test made during the war. And I think, so far as I remember, we had two instances where men tried to escape priority; but, instead of putting them in jail, we made them pay big fines and gave them to the Red Cross, or something like that. But they are the only two I remember.

Mr. SMITH. These prosecutions after the war on sugar—I am pretty hazy about it, but I remember there were some on selling sugar at higher prices, I think, than the price which was fixed. Now, that price may have been fixed by agreement; I do not know; but I wonder whether you recall that.

Mr. BARUCH. I am not familiar with the sugar matter. Mr. Hoover had that. I really never read it—I was pretty busy with the things I had to do—but they had a special law; they had the power. We did not have it.

I do remember one instance now where the Army came to us and said they wanted to buy all of the wool in the country, and asked us to make regulations and what not, and there was a Boston firm that kept \$250,000, and we never were able to collect it from them, although I personally kept after them through the Department of Agriculture. But, so far as I know, we never did get that money. That is the only instance I know of. Yet we had the right to fix that price.

What they did was to buy wool from the farmers cheaper than the price we made. The farmers apparently did not know. And they were very large dealers and were supposed to have made \$250,000. But the war come to an end then, and we tried to prosecute them through one of the departments, the Department of Agriculture, but never succeeded.

Mr. SMITH. One other thing, Mr. Baruch, on the conscription of labor. You say you are against the conscription of labor. I understand you to mean by that—and I believe it is also the position of the American Legion—that they do not believe in conscripting labor to work in private industry as civilian labor conscripted to work; but they do not mean by that they are against the conscription for military service of anyone because he happens to be, at the time he is drafted, a worker?

Mr. BARUCH. Oh, no. It is only to stop civil peonage. We will say a man might be a bank clerk, or might be a coal worker, or a carpenter, or a bricklayer, or in the mills; it is to prevent them from taking him out of there and making him work in another place. But if they are within the draft age, why, they would be subject to the draft the same as anybody else.

Mr. ANDREWS. Suppose there are 10 men in wartime employed by a bakery at 50 cents an hour and a nearby plant making something having to do with bombs and paying a dollar an hour, the labor supply obviously is short when a state of war exists, if under this bill or under any bill you say you are not going to conscript labor, what would there be to prevent those men in the bakery leaving their job

and going over to work at the other job at a dollar an hour, if they needed men?

Mr. BARUCH. Well, there is a "work-or-fight" provision; and then you place a priority upon the essentials of various industries.

Mr. ANDREWS. Would this bill cover that?

Mr. BARUCH. Oh, yes, sir; this would cover that.

Mr. ANDREWS. Under the priority section? Does it say "services" in the priority section?

Mr. BARUCH. That was under the mobilization—to draft into the military service anyone.

Mr. ANDREWS. The making of bread may be just as important as the making of bombs from the standpoint of the stability of the country?

Mr. BARUCH. Yes. It says here, "Between the ages of 21 and 31, as he may deem necessary, subject to such conditions, exemptions, rules, and regulations as the President may prescribe and publicly proclaim."

Mr. ANDREWS. That is all it says.

Mr. BARUCH. That is enough.

Mr. ANDREWS. Would that, to your mind—

Mr. BARUCH. In your opinion, would not this permit the same kind of draft act as in the World War?

Mr. ANDREWS. Yes; it would.

Mr. BARUCH. Well, the draft in the World War—

Mr. ANDREWS. But I do not see how you could force those men in the bakery to stay and work in the bakery at 50 cents an hour when they were needed in the other plant at a dollar an hour, unless you conscript labor.

Mr. BARUCH. I might say this: That is much more simple than it appears. If a man in the bakery could get 50 cents an hour and \$2 an hour in something else, some kind of an organization would be set up and he would make his application, and if we needed men in the other factories we would declare something less essential, and that would help the flow to the more essential things. That is what we mean by "priority."

During the World War labor could not have been finer. That is the reason I have fought so strenuously against the conscription of labor, because it connotes a feeling in the public mind, perhaps, that labor did not do their share. But they did. Those leaders of labor were fine.

Mr. PACE. Were they any finer than the boys in the service?

Mr. BARUCH. No; because they were the finest.

Mr. PACE. Why are you conscripting them, then?

Mr. BARUCH. Well, labor would be conscripted within the age limits, sir. If a man was a laboring man and he was within the conscriptive age, then he would go irrespective of whether he was a laborer or a banker. But I am talking about the conscription of labor of a man who is not in the age limits.

The CHAIRMAN. In other words, you do not conscript him and by that conscription force him to work in a mill, factory, or workshop?

Mr. BARUCH. That is what I mean.

The CHAIRMAN. But, as far as the military service is concerned, he is subject to conscription for the military service, whether he be

a laborer, whether he be a farmer, a lawyer, a doctor, or what not, if he is within the age limits?

Mr. BARUCH. I hope everybody here will understand what I mean. No man is free from military service if he is within the military age. That is no. 1. No. 2—I do not see any reason why a man who is not in the military age, because he happens to be a worker, can be taken from his home, under military discipline, and made to work in a lumber camp, or factory.

Mr. SCHAEFER. Could you tell me what authority, or was it your Board, that took over the meat packers during the war?

Mr. BARUCH. Our Board did not do that, but the Food Administration. You had a direct law; Congress passed a law, and the Food Administrator, as I understand it, had the power to do that—to take over, license, or what not.

Mr. SCHAEFER. And they set prices under that provision?

Mr. BARUCH. Congress gave them the right, but we did not have it—at least, the War Industries Board did not have it.

Mr. SCHAEFER. They had charge of labor in the packing houses, also?

Mr. BARUCH. You know, during the war, when we came to these agreements about prices, one thing we insisted upon was the prices then prevailing for labor; and generally they were made pretty liberal, because everybody was competing for labor. That is one of the reasons I wanted to put in "services."

Mr. PACE. Mr. Baruch, we were told Tuesday that this legislation, or similar legislation, had been before the Congress for the last 15 years. I am impressed by the questions that are asked here today, showing the detail that is involved. Do not you think that one of the reasons why it remains before the Congress is on account of the detail as to section 9 and section 10, and do not you think the practical thing would be for Congress to declare that upon a declaration of war every man and every resource of this Nation passes into the service?

Mr. BARUCH. Well, everybody would want to know what the conditions are. Does every man below 21 and above 31 immediately become subject to conscription?

Mr. PACE. Every man in the Nation; every resource of the Nation passes into universal service.

Mr. BARUCH. Under what conditions?

Mr. PACE. Under war conditions.

Mr. BARUCH. I know; but you would have to establish some general conditions under which that could be done; because if you do not, people won't be able to adjust themselves, and you would create a great panic at a time when you do not want to.

Mr. PACE. I just could not get the distinction of "universal" between a young man and any other resource of the Nation. The young man is as necessary and just as precious as any other resource of the Nation, and they should all pass into the service. And then would not a simple declaration like that leave out the argument on section 9, conscripting labor, and everything else? Are not we destined for another 15 years of discussion with this legislation?

Mr. BARUCH. Of course, I have been after this thing since 1919, and we have not obtained any legislation; but I think if we did not particularize more than you do there, we would not get anything.

It would be confusing; they do not know just what you mean. Now, if you go on and specify—yes. Certainly I do not want to be in the position of saying the life of the young man is not more precious than anything else we have. But I think you ought to particularize.

Mr. PACE. You do not particularize in section 3 of this bill.

Mr. BARUCH. That is the draft section, is it not?

Mr. PACE. Yes.

Mr. BARUCH. I think you do, because you do particularize as to the age limits, do you not?

Mr. PACE. I mean as to the resources. You leave that entirely to the President as to what industries, and so forth, he should take.

Mr. BARUCH. Well, they would all go in. There is not any industry in a modern war that does not go in.

Mr. PACE. Then is not that all you need—section 3?

Mr. BARUCH. You mean just the declaration?

Mr. PACE. Yes; section 3, giving the Commander in Chief the right to conscript any industries, and so forth, except make it general.

Mr. BARUCH. Let us see what would happen to prices; what would happen to the civilian population if you did not control prices?

Mr. PACE. You would control them if you controlled the article and the manufacture of it.

Mr. BARUCH. You think that would control inflation, too?

Mr. PACE. It would control everything in this instance.

Mr. BARUCH. You may be right, sir, but I only go as far in my recommendations as my experience dictates to me. I cannot go further than that.

Mr. PACE. Of course, I respect your recommendations highly.

Mr. BARUCH. But I think there is a great deal in what you say. But we have been discussing this thing pro and con, and it is a subject that has been on my mind since 1919.

Mr. PACE. This bill does not look like "universal" draft to me.

Mr. BARUCH. It does not?

Mr. PACE. No, sir.

Mr. BARUCH. I think it is the nearest thing we have been able to get, and I think it will do all the things we tried to do and could not do then. If we had something like this, on further study we may be able to go beyond it; but unless we have something, if you try to get a council of perfection like our neutrality, we will just get a lot of discussion and not get anywhere. I would like to get something on the books that will give us a chance to do the things we have in mind; then, if we learn better, we might go a good deal further. But I can only go as far as my experience limits me.

Mr. MERRITT. Mr. Baruch, during the war did not men who were already enlisted in the service work side by side with those men who were getting paid a real scale of wages for their particular work—a soldier getting \$30 a month working alongside of a man doing the same kind of work and getting the going rate of wage?

Mr. BARUCH. I do not know of any such instance; I do not know what you mean. You must have some instance in mind.

Mr. MERRITT. In other words, an instance that came to my mind was the General Electric Co. of Schenectady. Were there not men up there enlisted in the war as soldiers at \$30 a month doing the same work for which other men were getting \$60 and \$75 a week?

Mr. BARUCH. I do not know of any such instance. It certainly should not have been so.

Mr. MERRITT. This bill will take care of organized labor. What I am interested in now is unorganized labor, the clerical workers, men who are in the draft age between 21 and 31, who cannot qualify for service because of flat feet, bad teeth, or something like that, yet who are able to carry on at their original occupation at a very substantial wage. Do you think it is fair that they should get that wage and have men and boys in the service getting \$30 a month doing the same work? Will this bill take care of that?

Mr. BARUCH. Well, the services would not go up. If a man was physically disabled and could not go into the service, he would doubtless get more than the soldier who gets his \$30 and care—

Mr. MERRITT. Let us take as a fair example two men, one man who is eligible for the Army, who may be married and have a wife to support, but that does not necessarily mean he cannot go in the Army, and then take a man doing the same kind of work he is doing, he has flat feet but is able to carry on at his regular occupation, because his flat feet do not hurt his work, do not take away from his earning capacity. They were both getting \$75 a week. The man with a wife to support had to go into the service at \$30 a month; this other man can stay there because of flat feet and get \$75 a week. Is that fair? Is it taken care of in this bill?

Mr. BARUCH. I do not know that is taken care of in this bill.

Mr. MERRITT. I do not think it is.

Mr. BARUCH. As a matter of fact, I do not know just how you are going to go about it, unless there are a great many services that soldiers perform back of the lines. They might be able to, but I do not know enough about that to answer you.

Mr. MERRITT. That seems to be very important to me if a man who, because of some minor ailment, cannot go in the Army and fight the world's battle or country's battle, is still able to make a lot of money.

Mr. BARUCH. We know what they did in the Shipping Board.

Mr. MERRITT. Yes; I know. We are trying to overcome that now. I am afraid this bill does not take care of that.

Mr. BARUCH. You see, what I am trying to do is to stop this rise of prices, not to stop services. I mean not only the wages of the worker. We are always talking about the worker, but it covers a wider field. It covers just the men you speak of, that they cannot get any benefit. Then if you widen the base of taxation they would get less money.

Mr. MERRITT. It seems to me in Long Island City there was a gas-mask plant, and soldiers getting \$30 a month were sent in there to work and civilians who could not get past the physical test of the Army, but who were of the conscription age, were in there making twice and three times as much money.

Mr. BARUCH. I appreciate that injustice, or inequality, or whatever you wish to call it, and we could go into other things; but what I want to do is to get some legislation passed. But if we go in for a council of perfection we are not going to get anywhere. What I would like to see is to have some legislation passed, and then to continue to study and go on with it. But, as the gentleman remarked over here, we have now been at this for 15 years or more—I have been at it for 20 years—and we have not anything yet. I would

like to get something that will get rid of the evils, as we see it, and then to move on to the next objective.

(After informal discussion, the committee adjourned the further hearing on the above matter until Thursday, Feb. 4, 1937, at 10:30 a. m.)

TAKING THE PROFITS OUT OF WAR

THURSDAY, FEBRUARY 4, 1937

HOUSE OF REPRESENTATIVES,
COMMITTEE ON MILITARY AFFAIRS,
Washington, D. C.

The committee met at 10:45 a. m., Hon. Lister Hill (chairman) presiding.

The CHAIRMAN. The committee will kindly come to order. I am first going to ask Mr. Baruch if he has any additional or other statement he would like to make; then I will say, for the benefit of the members of the committee who did not have an opportunity to ask Mr. Baruch questions at the last session, that when we start to question him we will start with those members who did not have an opportunity at that time.

Mr. Baruch, would you care to give us some additional statement?

Mr. BARUCH. I would, Mr. Chairman.

The CHAIRMAN. We would be delighted to have it.

FURTHER STATEMENT OF BERNARD M. BARUCH

Mr. BARUCH. I must apologize for the length of it. I only did it last night. I am sure it can be done in probably one-half of the words. I hope the committee will bear with some of the repetitions in the statement.

This bill is to prevent profiteering in time of war and equalize the burdens of war, provide for the national defense, and promote peace. With two addenda all of the objects of this bill are possible of accomplishment. One addendum will include the price of services.

This committee may not be the proper place for financial legislation, but your bill should include a recommendation, in addition to section 9, that all corporate and income taxes be raised to the highest point possible without stopping the flow of munitions to our soldiers and the production of necessities for our home civilian population—that is, to the point of diminishing returns.

We have learned that modern war is not the impact of a few men. The whole Nation, with its every resource, must be thrown against the enemy. The welfare of the civilian population must be systematically provided for, as well as that of the soldiers.

Wars are now entirely economic in their origin. Such wars are never won. They are only, as always, lost both by the victor and the vanquished alike. We can make a start toward preventing war and toward minimizing the losses of a war on the civilian front after the fighting is over on the military front. This can be done by eliminating as far as possible the profit that war brings and by paying as far as possible as we fight, by increased taxes and low prices. But in our

efforts to eliminate profits we must be careful not to eliminate our actual war defenses.

The apparent isolation of the United States has always caused us to lag behind the rest of the world in the matter of national defense. Once every generation, regularly, we have paid a frightful price for this neglect.

A state of armed neutrality can preserve its neutral character much easier than unarmed neutrality can. Who can believe that, had we been ready to fight in 1917, we should have been subject to English interference and to German insolence, which latter finally made us fight?

With a law that would put in automatic operation a mobilization of our vast industrial fighting power, what nation would dare attack us? By enacting such a law as this we shall have written for ourselves the best national peace insurance policy that any country ever had. A modern war effort, with responsibilities and safeguards equally distributed, comprises these three things: (1) Raising and training the fighting manpower; (2) equipment and supplying of the same with fighting materials and with transportation, with payment as you go to the fullest extent possible; (3) protection of the civilian population against rising living costs due to inflation, by holding down prices for materials and services in connection with the second proposition I have stated. Do these things and you will have made advance provision, when the fighting ceases, for the orderly readjustment of the industrial and economic pattern of the peacetime normal.

This bill, with the added financial legislation, will achieve the following:

It will give the power to the President to mobilize all the resources of the Nation by such agencies as he may deem necessary in the circumstances. Also it will include not alone powers within the Nation, but the power to deal with and for imports that are necessary.

It will put a ceiling over prices that will prevent a rise and protect the Government and the civilian population whose needs must be second only to our fighting forces. As conditions change the President may adjust industrial prices for whole price groups up or down or for a particular thing. At all times downward fluctuations are permitted.

It will give the President the commandeering power in time of war broadened to include the licensing, control, and regulation of transportation, industry, agriculture, and finance. It will give the power to the President to mobilize all the resources of the Nation by such agencies as he may deem necessary, including imports and exports.

Financial legislation should place a tax that takes practically all the profits from war activities. It should raise all corporate and income taxes to the highest point without stopping the flow of munitions and necessities to our soldiers and civilian population—paying as we go.

Based on experience, it is my belief that this legislation would enable the country to pass from a peace to a war status with a minimum of confusion, waste, and loss. We could mobilize war supplies as quickly as we could mobilize men. We would reduce the cost of war, by paying as we go, as far as possible; by holding down prices and increasing taxes. Our country would preserve its credit and its

economic prestige throughout the world. Its war efforts would be conducted with less interference with the normal economic life of the civilian population than has been the experience of any modern nation. It would conserve the natural resources and preserve the morale of the people to such an extent that we would be able to outlive any antagonist in a long-drawn struggle. Profiteering would be prevented; profits from civilian activities would be minimized and burdens would be equalized.

Other countries are endeavoring to copy us, but their plans are not so far-reaching, nor will they be as effective.

I hate war as much as anyone; but, as I see it, our duty is plain. We should think peace, talk peace, and act peace. But, if war comes, we should be prepared to fight it, to win it, and to survive it. Wars are never won, but they can be lost. Let us at least avoid self-imposed defeat.

We have learned much as to mobilization and the manner of doing it and have advanced far beyond the methods of the World War in the making of legislation for taxation.

While we are making every effort to prepare for war, we should be giving much thought how to keep out of it.

In connection with this, of vast importance is what we have termed "neutrality." "Neutrality" to most people means minding your own business; but neutrality is what you declare it to be, are willing to defend, and to fight for, if necessary. No neutrality is of any value that we are not willing to insist upon by the force of arms. Therefore, we must be certain that our position is just in all circumstances. Some advisers of Napoleon I, once told him that the desire for perfection was the greatest weakness of the human spirit. There is no form which neutrality can take that has not some drawbacks.

On previous occasions, I have put forward the following thoughts in the hope that they may be helpful:

Because of its sinister connotations, not because of neutrality, because it is not neutrality, we should not sell lethal instruments, munitions, or manufactured parts thereof to a belligerent.

We must respect real blockades and forbid American passengers and trade to move on any ship of a belligerent. If done, it must be at the peril of the passenger or the shipper of the goods. Americans should not travel or ship on American or neutral vessels bound for a belligerent, or through a blockaded area except at their own risk.

We should lend no money to a belligerent. That means extending no credit. We should permit anyone to come to our shores and buy and get anything except lethal instruments that they can pay for in cash, and carry away—the cash-and-carry or come-and-get-it plan. This also means no credit; no postponed, nor partial payment.

Americans should be permitted to sail the seas and navigate the air in an American or neutral ship to neutral countries under the protection of our flag, except where it can be shown that the neutral ship is used as a cloak for trading with a belligerent country.

If we cut off articles other than munitions of a lethal nature, we are sure to have retaliation. We must now, if we intend doing that, purchase not less than a year's supply of the essentials which we do not produce, such as tin, nickel, rubber, sugar, coffee, tea, and mica. We must consider, if we do not lend money, whether we can buy vari-

ous raw materials in increasing quantities, all of which would give additional cash or credit for the purchase of things in this country. Would that be the equivalent of arranging credit?

It is conceivable that a nation in extremis might sell large quantities of what it produces at very low prices in order to get the things that it needs from this country.

We are endeavoring now to build up reciprocal tariff arrangements in order to beat down economic barriers which we think stand in the way of recovery and peace. Are we to tell these nations who, because of this reciprocal tariff, will buy more from us, when war comes and they are in trouble and need our things, that they can no longer have them? Will they not prefer to have reciprocal arrangements, even not so advantageous, with those who will sell them the things when they need them?

This bill, with its broad provisions, including those for tax increases, approximates the one before the Senate Military Affairs Committee. Many innovations have been suggested that have never actually been tried. There has been, so far as I know, no one called with any actual experience to draw up the form of organization necessary to carry out the provisions that have been discussed under this and other bills. Even in the Army itself, there is no agreement. Until only recently the Industrial College had different ideas from those of the Army War College. There are but few men in the Army who understand the subject of mobilization. None whom I have ever heard understood, until recently, the necessity of caring for the civilian population. No Army man should be entrusted with the direction of civilian activities, any more than a civilian should direct the movements of troops and arms. The Army should say how many men they want, what things they want, when they want them, contract for them, inspect them, receive them, and use them. The civilian industrial organization should tell them where and how to get them.

May I add just one more warning note? A phrase much heard is "Take the profit out of war." I myself have used that phrase so often that sometimes I think I invented it. Yet one must realize it expresses an ideal rather than an actual goal. Taxes of all kinds should be increased. Profits should be only what are necessary to get what we need for the Army and civilians. Profits can be kept down well below peacetime levels, but they cannot be abolished. Let no one mislead you on that score. To attempt to abolish all profit would mean another attempt to embark upon a sea of economic experiments that has never been successfully navigated. Our whole industrial and economic machine is built and geared to run on profit and reward for personal initiative. There is no proof that it will run on psychology, and much that it will not. Certainly, when the enemy is at our gates is not the hour to try to find out.

At the expense of repetition, let me close by saying we should prepare with adequate forces for certain, sure, defense on the land and water, and in the air, against any one or a combination of all. This means a mobilization of our men, money, materials, and morale, with a profit to no one other than enough to keep the activities at top speed and efficiency. I believe this can be accomplished under the present bill as outlined, with the addenda for proper taxation that will leave open no basis for hope of war profits.

The CHAIRMAN. As the gentleman on my right [Mr. May] suggests, that is a very fine statement, Mr. Baruch.

Mr. BARUCH. I am much obliged, sir.

The CHAIRMAN. It is very fine; we appreciate it. Now, Mr. Wilcox, would you like to ask Mr. Baruch any questions?

Mr. WILCOX. Mr. Chairman, unfortunately I was ill when Mr. Baruch appeared before the committee last week and I did not hear his first statement. There is just one thought I would like to get the benefit of your views on. During the World War, the Government took over the railroads and operated them as a necessary part of the Government's activities to win the war. I am wondering if, in your opinion, it would be possible, feasible and practicable for the Government to do likewise with munitions factories and other institutions that are necessary to successfully waging war—to take them over and operate them during the period of the emergency?

Mr. BARUCH. Well I think it might be well for us first to get clearly in our mind what the Government did with the railroads.

Mr. WILCOX. I am not defending the policy that was pursued.

Mr. BARUCH. Oh, no; I know.

Mr. WILCOX. I am simply asking as to the theory.

Mr. BARUCH. But I think we ought to have it clearly in our minds what did they do. It happened that the railroads could not function; they could not finance themselves. It was a financial problem. That is the reason Mr. McAdoo took them, rather than the War Department taking them. And what they did was to leave the railroads under their own operation—the presidents; the vice presidents, and the whole force. But they were under the Government in this respect, that the Government saw that they got proper financing; but, in return, they had to direct their traffic and carry goods and men under the direction finally of the Director General, Mr. McAdoo who followed the priority orders of the War Industries Board. But the railroads themselves were run by their own managers under general supervision of the director general.

Mr. WILCOX. Yes.

Mr. BARUCH. And that is what we have in contemplation with munitions and other things.

Mr. WILCOX. But was it not the fact, though, it was probably not so successfully accomplished as we could have hoped, due to the fact it was an emergency operation that had not previously been contemplated and planned for?

Mr. BARUCH. Partly so, but partly due to the fact the railroads were in a terrible jam before we got into the war. There was such an enormous amount of stuff that had been ordered by the Allies and that had come to the eastern ports, that by the time we got into the war for miles out from the northern seaboard points there was just a terrific jam of freight cars. But I think if we had planned in advance, as you are planning now, undoubtedly, of course, it would have been better.

Mr. WILCOX. I was very much interested in your statement. You made a very clear statement of your views. I think we are all agreed it is abhorrent that anybody should make a profit, make money out of war, and what we all have in mind is the successful accomplishment of some plan that will prevent the making of money out of war. And the thought I had in mind was whether, in your

opinion, it would be practicable, bearing in mind the rights of private property always, of course, and the successful and efficient functioning of any plan—whether it would be practicable and feasible for the Government, in the emergency, to take over and operate itself those absolutely necessary things, like the manufacture of munitions and things of that kind, during the period of the emergency, and delivering back to the owners at the end of the war period their property in the same condition that the Government took it over in the first instance, thereby preventing the making of profits out of those things?

Mr. BARUCH. I think that would be a mistake. What we want are munitions and we want them at the lowest price to us—I am talking now as though I were representing the Government—with the lowest profit to the manufacturer. I do not see anything that would be gained by the Government taking them over. The Government, through its direction, giving the orders, gets all the results you have in mind without actually being responsible to those owners for the return of the property in any particular shape. When you once take over and then you put back, there arises enormous difficulties, a great many difficulties—the difficulties of getting back and the question of wear and tear, which would not come up under the plan of having the Government direct allocating the orders and themselves giving priorities for all the orders they issued, and fix the price that they should accept for it.

Mr. WILCOX. I recognize the force of the statement which you made toward the close of your prepared statement, that the profit urge is the thing that makes industry progress and makes the wheels go around. Nevertheless, we can all recall, during the World War, that in order to speed up the production of ships we built lots of wooden ships by private shipbuilders and, in order to hasten the construction of those ships, we offered them a cost-plus arrangement which encouraged the increase of the cost by the shipbuilder. And, so far as I know, there were very few if any of those ships that actually sailed the seas; but they did cost the Government enormous sums of money, and enormous and unreasonable wages were paid in some of those shipyards at that time, giving rise later to legislation by Congress to try to adjust differences to some extent between the man who went into the trenches at \$30 a month and the man who worked on the shipyards at \$12, \$14, and \$15 per day. Those are some of the things I think we are trying to avoid.

Mr. BARUCH. This bill will absolutely avoid that; the bill you now have before you will absolutely avoid that.

Mr. WILCOX. You think it will absolutely prevent a repetition of that sort of abuse?

Mr. BARUCH. Yes, sir.

Mr. MAHON. Mr. Baruch, I believe you said last week at our hearing here, you had made a study of this particular subject for something like 20 years?

Mr. BARUCH. Yes, sir.

Mr. MAHON. And I understand, in your opinion, this bill as it now stands, with the possible addition of section 10 which you propose, will, insofar as practicable, attain the desired end?

Mr. BARUCH. Yes, sir.

Mr. MAHON. There were a few questions about section 9 the other day, Mr. Baruch, if you have that before you, about the words "all income" there. That, of course, means net income, I presume, and not gross income?

Mr. BARUCH. Undoubtedly.

Mr. MAHON. And I understood you to say that referred to corporations or business concerns and not to individuals.

Mr. MAHON. In other words, if the worker in a factory had made an average of \$20 a week for the past 3 years, and he should, during the war, get \$25 a week, 95 percent of that extra \$5 a week would not be taxable?

Mr. BARUCH. As I understand it, the taxing of incomes would be on a broader base, but it would not affect that man much, if any.

Mr. MAHON. I mean this particular section would not affect that man?

Mr. BARUCH. No.

Mr. MAHON. That is the thought I had in mind. There is one other question over here about what the President would have the right to take over, and so on. Let us take a hypothetical case. After war is declared, of course, we will need a lot of uniforms for the soldiers; and suppose a clothing factory has been making civilian clothing, and there is need for that factory to go on a basis of making uniforms and making nothing but uniforms: To what extent would the President have authority to take over that factory?

Mr. BARUCH. It would do two things: He would have power to take over and control any factory for any purpose he wanted. You had that in the last war; you have that now. Under the National Defense Act today, he has the power to take over. In other words, the way we worked it, also, when there was any doubt about it, we cut the factory off and would not let them have any wool, would not let them have any transportation if they did not agree to the Government's conditions. Thus we accomplished the result by "voluntary" agreement.

Mr. MAHON. As I understand this proposal, he would not actually draft the labor in that factory; they would still work under the management of that particular plant?

Mr. BARUCH. Yes, sir.

Mr. MAHON. But he would establish a ceiling beyond which their wages would not rise?

Mr. BARUCH. Yes, sir.

Mr. MAHON. And he may need to apply exactions on that particular plant by a ceiling?

Mr. BARUCH. You know in a good many instances during the last war we fixed the price of wages; when we agreed, we named the prices, and we said, "The prices of wages cannot be put down; they will have to stay at this price."

Mr. MAHON. I believe that is all. Thank you, Mr. Baruch.

Mr. CLASON. Mr. Baruch, I was wondering if you had read the House Resolution 5529, which was this bill as it finally came out in 1936, as reported to the House—this large bill which was the result of what happened by amendment and otherwise to the bills that were put in?

Mr. BARUCH. Is that the Senate bill?

Mr. CLASON. Yes.

Mr. BARUCH. It has taken so many different forms, I do not know whether I have seen the last one, sir.

Mr. CLASON. I was wondering if you felt that the tax provisions which begin on page 195—income-tax provisions—and run along for 150 or 200 pages—whether or not you felt that that income-tax law, as set forth in the Senate bill, is in satisfactory shape at the present time.

Mr. BARUCH. I have not seen that present bill. I know the first one was not.

Mr. CLASON. You have not seen this one, you do not think?

Mr. BARUCH. No; I have not read the provisions of the present one. I presume the present one is what you call the Connally bill, is it not?

Mr. CLASON. His name is mentioned in it as reporting it out on June 10, last.

Mr. BARUCH. I have not gone into that. I do not qualify as a tax expert. But the point I presume you are raising is whether those taxes will be such as to allow cutting the profits down to the lowest possible point and yet bring the goods out?

Mr. CLASON. Yes; that is the point.

Mr. BARUCH. I have not studied that.

Mr. CLASON. I was just wondering, if you will look at this paragraph 9, it seems to me, in the event it was passed, the proposition "There shall be imposed a tax of 95 percent of all income above the previous 3-year average," would defeat the very purposes you suggested.

Mr. BARUCH. I do not think so. In the 3 previous years they might have made very handsome profits. What we are trying to prevent there—or what I think the writer of that bill was trying to prevent—was if a factory got chock-a-block filled with orders, it would make more money even if prices did not go up and they wanted to skim off those profits from the war activity.

Mr. CLASON. You think to leave a profit of 5 percent on the investment will be sufficient?

Mr. BARUCH. Yes; because they are already making profits. If not, it will have to be adjusted. Let us take, as an illustration, company A for 3 years have been making money and war comes along; they get a lot more orders. I agree with the man who drew this bill; we want to prevent his getting the extra profits from that war to where he will be getting the average of the last 3 years. But if the average of the last 3 years was a loss, that would have to be adjusted.

Mr. CLASON. Do not you think a graduated income tax based upon the amount of a man's income is much fairer than it is to take a person who is only making \$3,000 to \$5,000 a year and tax him on the same basis as the man who is making a million?

Mr. BARUCH. I believe that. We raise the income tax, too.

Mr. CLASON. At the same time, on the profit end of it, he is going to be just as badly off, the small fellow, as the big man who makes a million?

Mr. BARUCH. Well, I think you ought to garner it all, practically everything we can that is due to the war. We cannot take it all, but we ought to take practically all, and that is the object of that bill. I do not know whether it ought to be 95 percent or 93 percent; but if you made a graduated income tax, there has to be some point to which

it will go up; and probably 93 percent would be the maximum point, or 95 percent, to which you would go.

Mr. CLASON. Would you favor a graduated tax or the imposition of this tax on all incomes regardless of the size of the income? That is what this calls for, as I see it. I do not see why it does not call on wages and everything else, as it is written.

Mr. BARUCH. As it is what?

Mr. CLASON. It seems to me it covers the wages of the carpenter, just as much as the income of the manufacturer.

Mr. BARUCH. I do not think the object is to have it fall upon wages. Wages, under this bill, you know, would be just the same as they were when war broke out. The only way the wage earner would get more would be because he was employed more days; that is all.

Mr. CLASON. But you do not think this covers it, as written?

Mr. BARUCH. No, sir.

Mr. CLASON. I have only one more question. Of course, I know we all have a good many questions we would like to ask, but I will just ask one more. You spoke of the fact you thought the country might well lay in supplies of 1 year of materials needed in warfare, which cannot be purchased in this country.

Mr. BARUCH. Yes, sir. If we intend to carry out some of the ideas I have seen expressed on neutrality, which in effect will shut off from other countries everything that they buy that will be helpful in war—and we know that the nation in arms needs everything. That means our cotton, our wheat, our oil, our manufactured goods, our shoes, and everything. Now, if we intend to do a thing of that kind, we will have retaliation; and here is a country like ours that is absolutely on wheels, and we produce practically no rubber at all. If we introduced into the world note on neutrality to mean that when war comes we should stop selling everybody everything, they will do the same thing to us. And if we are going to do that, I say we must have and buy now the things we will need.

Mr. CLASON. I agree with you. Why is it you limit it to 1 year; why not make it for a longer period?

Mr. BARUCH. I am naturally a conservative man. I said 1 year, because if you get a supply ahead of 1 year, you can stint and get substitutes. It is really remarkable what you can do when you have to.

Mr. CLASON. Then the other question that occurs to me is this: Assume you get in a year's supply of these war munitions which are not produced in the continental United States, how will you dispose of them as you go along, assuming it is a considerable supply, so that they will not get into a condition where they are of no use?

Mr. BARUCH. Here is the way I would do it if I had anything to do with it. Of course manganese, nickel, tin, do not deteriorate; coffee and sugar, to some extent. Of course none of the metals deteriorate. The rubber does, although they have found new methods of keeping oxygen away from rubber. This is the way I would handle it. If we bought a supply, I would have the daily regular imports coming in one warehouse and the daily consumption going out another. Thus we would have always a year's supply continually being refreshed. I would have sugar coming in here [indicating] and all the time going out here [indicating], and have

the fresh sugar flowing through. I know you could do it with rubber, and we would have to do it with the other things. It is simply a question of how much business would need.

Mr. CLASON. Rubber would have to go to private industry?

Mr. BARUCH. Oh, yes.

Mr. CLASON. So you would have to sell it.

Mr. BARUCH. Private industry would say "I need 500,000 pounds, or a million pounds of rubber of such and such a grade." If we have it in the warehouse, we will let them have it at one end and take the fresh rubber in at the other end. In other words, you would keep up your fresh supply. That is one way of doing it; that is the way I thought of doing it.

I do not know how far modern air conditioning would preserve many of these things. I am inclined to believe that with the modern knowledge of air conditioning and warehousing we could preserve those things much longer and in much better condition than we could do previously.

Mr. CLASON. But you think it is good policy for the Government, even though we lose money on this?

Mr. BARUCH. Only if you propose to say to the rest of the world that our neutrality policy has got to do, not alone with the lethal things—I use that expression; I mean death-dealing—but even with life-sustaining things. If you are going to say that to the rest of the world, we can expect the rest of the world to do it to us. I only bring it forward for discussion because I feel I would be negligent by not doing that.

Mr. CLASON. In other words, if we adopt this permissive plan of neutrality legislation that is suggested, we ought at the same time to build up our war supplies?

Mr. BARUCH. You have got to do it or invite defeat.

Mr. MAVERICK. Mr. Chairman, in order that I may be understood, I would like to make a short statement to begin with.

I have introduced a bill which is backed by the Veterans of Foreign Wars, and it has been introduced in the Senate by Mr. Bone, Mr. Nye, Mr. Clark, and, I think, Mr. Vandenberg, also. Now, it sets out tables and should be considered as giving this committee jurisdiction, but they refused to send it to this committee; they sent it to the Committee on Ways and Means.

Now, when we opened this committee hearing, the chairman made some very flattering remarks about Mr. Baruch, which I think were entirely proper; but I think we ought to hear a lot of other people. I think, for instance, we ought to hear Mr. Filene, John Lewis, Mr. Sloan, and a lot of different people about this. I think we ought to have the railroads and peace organizations, the chemistry professors, and the tax experts. The bill proposed by the Veterans of Foreign Wars, I presume, is not intended to interfere with other organizations, but we all want to get in a good bill.

Now, I would like to ask the gentleman one or two questions. You said you would be in favor—that was at the last hearing—of taxing up to the point it will not stop production. What do you mean by that?

Mr. BARUCH. You mean what the exact point was?

Mr. MAVERICK. You undoubtedly meant something by it.

Mr. BARUCH. Yes. I mean exactly what I say by those words—that I would raise the taxes up to the point of diminishing returns. That is one way of expressing it. I would raise the tax to the highest point we can get it without stopping the flow of materials.

Mr. MAVERICK. Now, why should materials be stopped if you have high taxes?

Mr. BARUCH. Well, I doubt whether, if you do not give a man something for his work, he will work.

Mr. MAVERICK. In other words, you have conscription in order to get human beings to fight, to go to France or some place and be killed, and you have stated you do not want industry under the War Department; and why should you make it so there would be the profit motive for industry and conscript the human being where there is no profit motive? In other words, as one of the gentlemen said, if there is only a 5-percent profit left, there would not be much urge. But there is nothing left when a man gets killed; he has not got even that 5 percent. All of his is gone; he is dead. And why should we make that distinction? Why should not we conscript the motor plants, for instance, and the munitions plants, and all; why should not we conscript them just like we do the human being?

Mr. BARUCH. I think you ought to commandeer it. I do not know whether you are going to pay that motor plant \$30 a month or what.

Mr. MAVERICK. Well, say we give the executive a salary not in excess of a major general, and let that be all the profit he gets during the war. How would that do?

Mr. BARUCH. I do not think anybody would object to that.

Mr. MAVERICK. Would you be willing to pass a law so that they would not get any profit?

Mr. BARUCH. I do not think it will work. I would not want to take that responsibility, sir.

Mr. MAVERICK. In other words, you do not want to take the profits out of war; you want to leave them profits?

Mr. BARUCH. I want to do two things; I want to take the profit motive out of war and I want to take the profits out of any activity in war just as far as you can go without stopping the machinery of war.

Mr. MAVERICK. Do not you think, when you eliminate the profit motive, you have got to eliminate it altogether?

Mr. BARUCH. There are two things, Mr. Maverick: You should eliminate the profit motive. What I had in mind was a great many people say that countries are forced into war by people who want to make a profit from it. Well, if you remove the possibilities of making profits, you remove the profit motive.

There is another thing; I want to remove profits you make ordinarily in peacetime to the very limit we can. I do not know what that is. Maybe I would not go as far as you do. While you might be right, I would not want to take that responsibility; that is all.

Mr. MAVERICK. I understand.

Mr. BARUCH. If I had the responsibility of getting materials to the men at the front when they wanted them, and to the civilian population, that they needed, I do not think I would; I certainly would not enter into production for use. And that is practically what this means, is it not, sir?

Mr. MAVERICK. I think a man is in production for use when he is being sent to the battlefield to be killed, too.

Mr. BARUCH. Mr. Maverick, do not get me in the position of where I am going to say there is anything that can equalize the sacrifice of the man at the front, because I do not think there is anything that is equal to the sacrifice he has got to make.

Mr. MAVERICK. Yes; but now you understand that we are trying to get down to the philosophy by which we can enunciate the principles for a bill, and it involves the profit motive. Now, if we have the profit motive and we are going to take the profits out of war, I do not see why we should not take them all out; I do not see why we should go ahead and set up a military state, or a fascist state in time of peace, when we all know that the draft law is going to be passed in 1 minute after war starts. In other words, I want to have clear in my mind the necessity of an act providing for human conscription now, when we are not conscripting industry. I want to see the necessity of that right now, and that is what I want you to explain.

Mr. BARUCH. As I said in my statement, it is an ideal to which we ought to travel, but I am not prepared to recommend it from my experience and with my knowledge of human nature. If I have to take the responsibility, I must only give you what I think it is possible to do. If you shove off into that new order, I do not believe it is the time to do it when you are in the face of the enemy. Of course, when you talk about there being a profit, I do not know. You say you would pay this fellow \$10,000; I do not know whether you would pay the people who owned the factory for any use of it at all; I do not know whether you would pay the man who digs metals out of the soil any profit for it or not. I do not know exactly what your idea is.

Mr. MAVERICK. My idea is that if a man should go into a war, he should not be any better off than he was when he started. For instance, a man goes to war and he is either wounded or gets killed. Now, he is not any better off. But Mr. du Pont has a small factory down here and he increases his wealth very greatly; then he puts his funds into General Motors and the chemical industry and different things of that kind and amasses a vast fortune by virtue of his wealth. I am willing for Mr. du Pont to have as much as he had when he started, but not what I believe to be 100 times or 200 times as much. My idea is, I do not want any man to suffer a loss, but I want it understood he is not to have any gain whatsoever. Make it \$25,000 a year; that is all right; give him four times as much as a major general, but I do not want him to have any more. Now, would you be willing to make this so that he would not have any more at all than he had when we started this war?

Mr. BARUCH. I certainly would not want anybody to amass any great fortune.

Mr. MAVERICK. You want them to amass little fortunes?

Mr. BARUCH. Well I would say I want them to make some profit. I am not trying to defend Mr. du Pont, because he can take care of himself.

Mr. MAVERICK. Well he did not take care of himself in this last election.

Mr. BARUCH. It may interest you to know that I had the biggest battle of the whole war with him. I upset that powder contract myself that was made with them.

Mr. MAVERICK. In other words, Mr. Baruch, is not this the truth, that you favor—I do not want to say this in any embarrassing way, you understand, but we are just discussing it——

Mr. BARUCH. I won't be embarrassed, sir.

Mr. MAVERICK. You are in favor of drafting a man for war, but you want industry to make profits, but not what you call excessive profits?

Mr. BARUCH. I do not want them to make any more profits than are necessary just to keep the thing going.

Mr. MAVERICK. Then what about this man at the head of this plant? We will say he has been getting \$10,000 a year; do you want him to make anything beyond the average, good salary he has had for the last 2 or 3 years?

Mr. BARUCH. I certainly do not. That fellow, if he is getting \$10,000, he is not supposed to get anything, even under this bill, above that. Besides, he has to pay more of his salary in taxes.

Mr. MAVERICK. In other words, you are willing for a man to be not any better off at the end of the war than he was before, not to have any more money, but to have just as much?

Mr. BARUCH. I want him to have less.

Mr. MAVERICK. You want him to have less?

Mr. BARUCH. Yes, sir.

Mr. MAVERICK. Now, you are getting a little bit my way.

Mr. BARUCH. I have said that, sir; I mean I have tried to say it.

Mr. CLASON. What about the stockholders, Mr. Maverick? I think you are just evading the thing. It is not only the man working in the plant, but the other men who won't even be salaried people. They are the ones making the money.

Mr. MAVERICK. I think the stockholders should be limited to some very low return, probably 4 percent.

Mr. BARUCH. But that is a profit. Now you are meeting with the intent of this bill.

Mr. MAY. He just missed it 1 percent. We propose 5, and he said 4.

Mr. MAVERICK. I am sorry; I will agree on 5.

Mr. BARUCH. We won't quarrel over that 1 percent.

Mr. MAVERICK. The point I want to arrive at is that the profits, when we talk about war profits, we are talking about profits in excess of a low peacetime average; is that not right?

Mr. BARUCH. Right.

Mr. MAVERICK. There is another thing that worries me, and that is this idea of conscription. I do not know whether I favor conscription in peacetime at all, or not; I do not know whether I would be for it in time of war; I do not think I would. I might be the only man in Congress who did, but I think I would vote against it. I do not know. But when this Nation was first formed, they held that a man could not be drafted to be taken out of his State. That, I believe, was in the Constitution. Then later they got to conscripting men and taking them outside of the State; then finally they got to where you could conscript him and take him outside of his Nation. Now, do not you think this bill ought to be confined to it being a defensive war and we should confine this conscription to a defensive war and to the shores of the United States, rather than sending men to China, or Siberia, or something of that kind?

Mr. BARUCH. I would not send men to China for any reason, or to Siberia either. But in fighting a defensive war, might I call your attention to this, that in order to defend ourselves we might have to take some position that would be out of this country, as a matter of defense. I would not want to interfere with the military conduct of the war. I do not think we ought ever to engage in any war but a defensive war; but in a defensive war we might have to engage in an offensive.

Mr. MAVERICK. You do not have to answer this question, if you do not want to, because it is past history; but do you think, in order to defend the shores of America, it was necessary for us to send troops to Germany?

Mr. BARUCH. I will put it this way: I think if we had not gone there, Germany would have won, and then she would have taken it out of us.

Mr. MAVERICK. You think Germany would have conquered the world?

Mr. BARUCH. Yes, sir. I think, without us, the Germans would have beaten.

Mr. MAVERICK. It looks like she won anyway, the way things are going, and that the war did not help much.

Mr. BARUCH. Yes, sir. As I say, nobody ever won a war, anyhow.

Mr. MAVERICK. That is the reason I think we ought to have in here the philosophy of defense and not offense on foreign shores. That is all, Mr. Chairman.

Mr. RUTHERFORD. Mr. Baruch, I have been reading the report on the munitions industry on the War Department bills of last year and in section 4 of that report "fundamental difficulties of the attempt to eliminate profiteering", the committee made this statement:

A strike is a stoppage of production in order to gain certain demands. The term has been generally applied to the actions of labor. But the committee has pointed out that in time of war corporations and industries can and will take a course of action which really is a "strike" by industry against the Government. Those who control the policy of business units hold a strategic position in modern economic life. They make the decisions upon which depend the functioning of the industrial machine. They can decide to produce or not to produce, and at a word from them important cogs in the machine may slow down or come to a halt. In time of war the Government is in a peculiarly weak position to deal with such a deliberate slowing down of production. As has been stressed, its main consideration must be the maintenance of an adequate supply of goods.

If industry strikes or threatens to strike to gain its demands, the Government must yield as it yielded in the last war.

Now, I would like to know how to overcome such a situation as that.

Mr. BARUCH. If industry wanted to strike?

Mr. RUTHERFORD. Yes.

Mr. BARUCH. Of course, no industry is going to strike. I dealt with industry without any such power as we have now. All we had to do was to talk about commandeering, Mr. Rutherford, and they would take the jumps. First of all, nobody wants to be publicly announced as an enemy in time of war by having his factory taken over. And the Government has the power to take it over. They can take that factory over, they can commandeer it and put Mr. A out as manager and put in Mr. B.

Mr. RUTHERFORD. Suppose they put Mr. A out and put Mr. B in, but Mr. B is not as competent as Mr. A; therefore the factory won't function properly.

Mr. BARUCH. We would have to get the most competent man we could get, just the same as we do now. If one man dies, we have to get the best man we can in his place. I think those in charge would be perfectly able to get somebody in there to make the plant function. The Government has the power to take it over and has the power to appoint whoever they want.

Mr. RUTHERFORD. But how are they going to take it over and have it function in the same way it did before if the men and the executives refuse to work?

Mr. BARUCH. I never heard of an executive like that during the war. I had some tussles with them until they understood. Another thing, I think people understand what modern war is now. They did not before. I do not think there is any difficulty involved in that, sir, with the power to commandeer and the power to license.

Mr. RUTHERFORD. Well, suppose the factory labor refused to function; what would be the answer there?

Mr. BARUCH. Well, we never had any trouble with labor when they were treated fairly. I do not think you have had much trouble with labor as a rule, if you treated them fairly. We never had any trouble with union labor or nonunion labor.

Mr. RUTHERFORD. The attitude you take, then, is that the patriotism of those men is going to be so great that we do not need to consider that situation at all?

Mr. BARUCH. Oh, no; I am not going as far as that. We have a club here in this commandeering. By commandeering we can take over the plant of any whom we want. It would be just like replacing any board of directors, or any executives. We can replace the whole outfit.

Mr. RUTHERFORD. That is all.

Mr. BROOKS. Mr. Baruch, I am interested in the manner in which this bill will affect, first, labor, and second, agriculture. There has been a good deal said about labor, but nothing said about the farmer. How will this bill affect, we will say, the cotton farmer; in what respect will he be regulated?

Mr. BARUCH. You talk about cotton. My heart is there. I am from the South.

Mr. BROOKS. Well, let us say wheat.

Mr. BARUCH. No; let us talk about cotton, as long as you brought that out. It does not make any difference; it means the same thing. Under this bill, the price of cotton, or wheat, would be the same—would be that which it was on the date that was set for the ceiling, like other prices. Then that might be a case of where it was too low because of overproduction, or too high because of underproduction. So a price-fixing committee, on complaint or request, would study the prices of cotton and wheat and make adjustments accordingly.

Mr. BROOKS. Won't you necessarily have to increase the price of cotton in order to stimulate the production of it?

Mr. BARUCH. If you wanted to, up to a certain price.

Mr. BROOKS. In other words, to bring into use marginal lands which otherwise would be unproductive, would that not necessarily be the case?

Mr. BARUCH. Yes; if you needed that much cotton.

Mr. BROOKS. Well, we needed it in the last war, did we not?

Mr. BARUCH. Well, the other people needed it more than we did.

Mr. BROOKS. And your idea would be to set a ceiling on the price; in other words, to control the market?

Mr. BARUCH. To set a ceiling as of that date, then the price would be readjusted according to the circumstances of the occasion.

Now, mind you, on none of those things, in advocating this bill or any other bill, do I claim perfection. I have quoted the adviser of Napoleon I on the question of our desire to get perfection; but I think we can meet the most of our objections by keeping this machinery of action mobile with the general provisions as outlined in it.

Mr. BROOKS. Now, with industry you would control income, but with agriculture you would control the commodity market; is that the idea? You have used a different basis for the two?

Mr. BARUCH. The price would be adjusted beyond which it could not go.

Mr. BROOKS. Would it not be wiser to use that same basis with industry?

Mr. BARUCH. You might do as we did with wheat—buy all of the wheat. We also bought all of the wool in this country, which is something that very few people remember. We would have to act according to whatever the circumstances demanded.

Mr. BROOKS. Then this provision in reference to the 5-percent income would not apply to agriculture, would it?

Mr. BARUCH. Agriculture gets pretty little. They do not have much income.

Mr. BROOKS. That is what I wanted to know.

Mr. THOMAS. Mr. Baruch, referring to the bill, and particularly to section 6, it reads:

* * * the President is authorized to determine and publicly proclaim the order or priority in which any manufacturer, dealer, producer, exporter, importer, or public service in the United States shall fill orders.

Under that section, would not there be a tendency to eliminate competition and a tendency also, perhaps, to show favoritism?

Mr. BARUCH. That is probably the most important power in war—the one we call “priority”—and you have got to have that; otherwise the whole thing will get jammed up.

Mr. THOMAS. All right; but all of the manufacturers of a certain particular line, under this section, will have a tendency to keep their prices up at the ceiling; while, if this section on priority was not in here, then there would be a question of competition, and each one of them would be competing against the other, and the President then could buy the goods from the particular manufacturer who was selling at the lowest price.

Mr. BARUCH. Well, yes; and, of course, when the Government deals for the Army and Navy, if they think the price is too high, they just move the ceiling down; that is all.

Mr. THOMAS. All right; but the ceiling ordinarily would be kept low if this priority was not in here, and then every manufacturer would be competing against one another, and it would accomplish the same thing Mr. Maverick mentioned: there would not be the same amount of profit involved as there would be where there was a ceiling.

Mr. BARUCH. From what I saw of the working of the priority law, nothing like that occurred in the last war, sir.

Mr. THOMAS. Was there any favoritism in the last war?

Mr. BARUCH. I hope not. I know there was not.

Mr. THOMAS. You know there was not any favoritism?

Mr. BARUCH. Yes, sir.

Mr. PACE. What is your construction, Mr. Baruch, of the term "or the existence of an emergency due to the imminence of war"? That is in the first lines of the bill.

Mr. BARUCH. Well, I would leave that entirely in the hands of the Congress. I think the existence of an emergency due to the imminence of war is too broad. I quite agree with you. I meant to draw attention to that.

For instance, we might say there was "imminence of war" by some power with us. I would not want this great power to go into the hands—I would not want it to be exercised unless Congress visaed it.

Mr. PACE. I had this thought in mind, Mr. Baruch: You spoke a moment ago that there have been charges that men favored war on account of the profit. And while I can hardly believe it, some historians have said that there have been wars to save somebody's neck, politically. We do not know, of course, who will follow as the next President of this Nation. It is a thought that no one likes to entertain; but is it not possible that under this language an "imminence of war" could be declared in order to place the President, as this bill does, in utter and absolute control?

Mr. BARUCH. I think that is a good point. I think it is dangerous; it is too much power to give to anybody, to declare imminence of war; because they might want to take the minds of the people off of something unpleasant by declaring a war was imminent and put some man on horse back in control of the whole Nation.

Mr. PACE. You think we should strike that language and just leave it in case of a declaration of war these excessive powers should come into existence.

Mr. BARUCH. I think that could be left out. I think, anyhow, what should be done is the Congress itself, that is, the people, ought to decide that and nobody else, if you are going to have it "imminence of war."

The CHAIRMAN. That is exactly what the bill proceeds to do.

Mr. BARUCH. "That whenever Congress shall declare war or the existence of an emergency"—well, if it is in the hands of the Congress, I am not so afraid; but it is a tremendous power to put in the hands of one man.

Mr. PACE. In that connection you have provided here that in the event of a certain declaration, the President shall go back and fix a past date for price levels.

Mr. BARUCH. Yes, sir.

Mr. PACE. In other words, upon the enactment of this law, the President becomes an utter dictator, and would it not be just as wise to provide that on the declaration of war, or any resolution accompanying the declaration of war, the Congress, as the representatives of the people, might fix that past date as the date?

Mr. BARUCH. No; that would be too much like log rolling for a tariff. The President, as Commander in Chief, should be given all

the power that is necessary so that we have as little conversation as necessary. When Congress says "war", let him be in a position to conduct it. I would leave that in his hands.

Mr. PACZ. One other question: I note in section 4, Mr. Baruch, that the President is given power, in line 8, page 3, to enlist those who manage or control an industry, to draft them into the service as civilians. That not only gives him the right to take over the factory, but gives him the right to take the manager and all of the executive staff, but gives him no control whatsoever of the labor in the plant. Is that your understanding?

Mr. BARUCH. It only refers to the management or control.

Mr. PACZ. That is all.

Mr. MAVERICK. I have just one question concerning the imminence of war. You know we have granted extraordinary powers to the President before and some people objected to that. Now suppose we get up a lot of excitement about some war and the President would ask for that power and Congress would grant it on the basis of imminence of war with Germany, or some other country: Do not you think it would be a rather dangerous thing to give that power, because the President, if he was the wrong man, might go out here and say "We need motor trucks; we have to send troops up to such and such a place", and then the rights of labor would be taken away entirely by a declaration of imminence of war. Do not you think, even with Congress declaring the imminence of war, that is a mighty dangerous thing? Is not that sort of a step in the way of fascism, or a step toward a Reichstag like they have in Germany?

Mr. BARUCH. If you had a Congress that was fascistly inclined; yes.

Mr. MAVERICK. We are all right now, but should we change—

Mr. BARUCH. I have read that over more times than you think and have spent many wakeful moments over it.

Mr. MAVERICK. You are worried about it, anyway, are you not?

Mr. BARUCH. But if it means the Congress still has its hands on it, I do not fear it.

Mr. MAVERICK. But if we give it to the President, our hands are gone.

Mr. BARUCH. Yes; that particular phraseology. I am not entirely sold on it, sir.

Mr. MAVERICK. I would like for the court reporter to record that Mr. Baruch is a little worried about that, any way. [Laughter.]

Mr. HARTER. Mr. Baruch, I did not have the opportunity of being here a week ago and hearing your statement, but I remember well the contribution you made to the fund of information supplied to the committee two years ago, when you appeared at our hearings. And as I listened to your testimony this morning and the questions that have been asked you, it appears to me that your ideas with reference to this bill and what it will do and the ideas of my colleague, Mr. Maverick, are not so far apart, that under the income-tax provisions and excess-profits-tax provisions that would be written into this bill, not only would the profit motive be wiped out to engage in war, but through these two forms of taxes you can so provide that no one will be better off financially after the war than prior to the war? Because, is it not a fact that the excess-profits taxes would take care, with proper levels, of practically all of the

increment and increase in profit that might be derived, and you would have to "up" the scale of income taxes so that the individual would not profit by reason of any conflict?

Mr. BARUCH. He would have much less than he has now.

Mr. HARTER. What is your thought with reference to a ceiling on prices as affecting the tax income of the Government during a war? Would there be a sufficient return in taxes so that we can pay as we go, as you express it?

Mr. BARUCH. Well, I think we would be better off in a good many ways. First of all, it is inhuman to think anybody can make money by letting prices go up. Secondly, we would have less to pay if prices were low, you see. If the price of steel, being \$40 a ton but might easily run up to \$100 a ton, if that is fixed at \$40 a ton or lower and the Government buys a lot of steel, its expenditures are less. I have made a statement of this kind. I could not put it down in exact figures, but I believe if you had had a thing functioning like this in the last war, despite the fact prices had already risen long before we got into it, by the competition of the Allies, that our bill for the war would have been away under 50 percent and might have been between 30 and 40 percent of what it was. That is just a rough calculation of my own. I have sat down and figured over it a lot, but I think it would have been under 50 and perhaps under 40 percent of what it was.

Mr. HARTER. There is one other question I would like to ask you in reference to your ideas about neutrality in trade with foreign nations during a war. In your cash-and-carry plan, you say you would not include lethal weapons.

Mr. BARUCH. Would not, yes.

Mr. HARTER. I believe in the testimony you offered last year you said that practically everything in wars of today that is humanly consumed may be classed as a munition.

Mr. BARUCH. Yes, sir.

Mr. HARTER. Because you would have to organize the whole industrial population, the entire population; not only the armed forces, but all of the citizenship of the country.

Mr. BARUCH. Yes.

Mr. HARTER. Well, why do you feel it is advisable not to sell lethal weapons, as long as it is a cash-and-carry plan?

Mr. BARUCH. I am glad you ask that question. I have divided those things in two classes: one death-dealing, that is, lethal instruments—I do not know why I picked that adjective "death-dealing"; and the other one life-sustaining. If you keep wheat away from a man, wheat is life-sustaining and he will die if he does not get it, you see; but you do not actually kill a man. And I differentiate, because there are a lot of good people in this country who just do not think we ought to be in the business of selling weapons which kill other people. Now I do not think it is neutrality. I think it is very unneutral. For instance, if China and Japan got into war, just as Italy and Ethiopia got into war, and you won't sell anybody anything, that means you are on the side of Japan and on the side of Italy, does it not? Because Ethiopia had no arms; China has no arms. And as a reverberation of that, if the whole world adopts that policy of not selling lethal instruments, every nation will say that "the only thing to do is to start an arms factory of our own".

and so every country will have to start an arms factory of their own. Thus by our action we increase world-wide arms production.

Mr. HARTER. Is not there a possibility also of our getting into this position, that if you refuse to sell any lethal weapons to any one, in case we should be faced with a national emergency and would need to augment our supplies, we would have difficulty in obtaining them from other nations?

Mr. BARUCH. Unquestionably so. "Do unto others as you would have them do unto you."

The CHAIRMAN. I was very much interested, Mr. Baruch, in what you said about imports. You mentioned certain articles such as tin, rubber, sugar, and coffee that we had to import. I would like you to give us a little picture in a few words, as to how this matter of imports would work under this plan, and whether or not we are throwing anything in the way that might interfere with that flow of imports into this country?

Mr. BARUCH. Under such ideas as I had and that were working in the war, and I think are possible and practicable under this bill, the Government would practically have control of all production and use of things. We export a good many articles—cotton, wheat, manufactured goods, and all kinds of things. This country being so enormous, if we became involved in war and war preparations, we would use more of our things than we did before. We would have less to export; consequently, the prices would go up. We also would have to buy a lot of things and prices would go up, because everybody knows we have to have them and they would say, "There is that fat boy, Uncle Sam; we will take a good crack at him now, because we have him in a good place." So that what you would have to do is to have some agency set up, as there can be under this bill, that would take all of the excess that the rest of the world needed, sell it at high prices, as high as we could get outside, to the foreign countries. Then we would buy whatever we needed of various things that had to be imported at the best prices we could get. We probably would shut off profitable exportable surpluses to individuals and do it as a government.

The CHAIRMAN. Of our goods.

Mr. BARUCH. Yes, in order to take in the imports. And then, when they came in, the Government would allocate the various uses of the materials we had to use for our war purposes and for the civilians at the net cost. The net cost of imports would be lessened by the profits on exports. Therefore, we would not in any way injure our financial or social fabric. Is that clear, sir?

The CHAIRMAN. I think so. Now to go back just a minute to this matter of profits. Of course what we all want to do is to put an end, so far as possible, to any profit that might be made out of war or due to war. Have not you got to keep steadily in mind this thought, that you cannot remake, overnight, your whole economic and financial system in this country? Is not that true?

Mr. BARUCH. Yes, sir.

The CHAIRMAN. And could there be anything that would contribute more, perhaps, to defeat in war than endeavoring, over-night, upon the declaration of war, to change your whole economic system?

Mr. BARUCH. Right.

The CHAIRMAN. Now you, like every other man who was a soldier in the front line getting only \$30 a month, do not think any other

man ought to have any profit out of that war; but you cannot say you are going to put everybody in this country on a \$30 a month basis. A man today may be making, say, only \$150 a month, and if you put him on a \$30 a month basis, that would disjoint the whole thing. He has to buy his coal, he has to buy light, he has to pay rent, he has to buy clothing for his children, and you cannot disjoint the whole thing overnight simply because there is war. Is not that true?

Mr. BARUCH. Yes, sir.

The CHAIRMAN. And what this bill would do is to try to put an end as far as possible to profit and at the same time to keep your economic system functioning, and keep it functioning in the most efficient manner to take care of the civilian population as well as provide material for the soldiers in the Army. Is that not true?

Mr. BARUCH. Yes, sir.

Mr. WILCOX. Mr. Chairman, as I understand the bill, it actually accomplishes taking the profit out of war; because the profit in war is what you would make during the war over and above what you would have made during peacetime.

The CHAIRMAN. That is the whole question.

Mr. WILCOX. In other words, to take the cotton of the gentleman over here (Mr. Brooks), if cotton is selling at 10 cents a pound during peace-time and during war it would jump to 15 cents a pound, then his war profit is 5 cents a pound on cotton, and if you fix the price of cotton at 10 cents, which is the peace-time price, then he cannot make any more out of his cotton than he made before. And so it is with labor and other branches of industry. So if the bill accomplishes that, Mr. Baruch, as I see it, you actually accomplish the taking of the profits out of war?

Mr. BARUCH. I think it will work that way.

Mr. WILCOX. Plus the provision that if by increasing production industry makes a bigger percentage on its investment than it did before, you would take that percentage off through the excess profits tax?

Mr. BARUCH. Would take their increased income, as was suggested over there, through increased taxes.

Mr. WILCOX. Then you would take off the percentage of increase—

Mr. BARUCH. You would just skim it off.

Mr. WILCOX. Due to the increased production.

Mr. BARUCH. Due to the increased production; yes, sir.

The CHAIRMAN. The truth is, if the bill worked as it should and as it is intended to work, there will be no war profits and the normal profits will be much less, due to the fact that the Government, through heavy income taxes, will take so much greater proportion of what we might term the normal peace-time profits; is not that true?

Mr. BARUCH. It will take the increased part of it; yes.

Mr. THOMASON. Mr. Baruch, under your cash-and-carry plan, would you not give a decided advantage to the nation with the strongest navy?

Mr. BARUCH. Surely, they would have the advantage; but we cannot take that away from them. This cash-and-carry or come-and-get-it plan—I thought I was the author of it—is not perfect, but I am trying to get ourselves in a position where we will mess into anybody else's business as little as possible.

Mr. THOMASON. I am not taking issue with you, but I just wanted to hear you briefly on that.

Mr. BARUCH. If Great Britain and Germany got into a fight, Great Britain would have the advantage as long as she commanded the seas.

Mr. THOMASON. Surely; Great Britain would have the advantage over anybody that came to our country to buy goods.

Mr. BARUCH. Surely; and undoubtedly she could get in here and get what she wanted for herself and stop all shipping to Germany.

Mr. THOMASON. And if you had some little weak nation fighting a righteous war and a just one, and she was at war with a nation with a strong navy, that weak nation could never get here to buy our goods?

Mr. BARUCH. She could not.

Mr. THOMASON. So is there any such thing as neutrality?

Mr. BARUCH. No; "there ain't any such animal." I do not care whether it be lethal instruments or anything else, there is no such word as "neutrality." I mean we cannot take any action that is neutral; because as soon as you take the action you become unneutral. Did anybody think we were neutral when we said we would not ship any arms to Italy and Ethiopia.

Mr. THOMASON. I am not taking issue with you, but it is a big question and you are giving a decided advantage, of course, when you adopt the cash-and-carry plan, to the nation with the strong navy, are you not?

Mr. BARUCH. Certainly.

Mr. THOMASON. So I wonder if that is strict neutrality.

Mr. BARUCH. Oh, no. As I tell you, "there ain't no such animal", but I am trying to get the best possible thing for my country so that we can proceed to do our business as well as we can without sticking our nose in other people's business, or letting anybody stick their nose into our business.

The CHAIRMAN. In other words, Mr. Baruch, when we use the word "neutral", we American people, what we really mean by that is not what is the best plan to be neutral so far as two other or more combatants are concerned, but what we really mean is what is the best plan to keep us out of it; is not that it?

Mr. BARUCH. Certainly. And I think "neutral", if I may be permitted to add one more word, to most Americans is a burning desire to have peace. We do not want to get into any more messes. We got burnt once and we want to keep out. They think, as you say, it means peace. But we want to be certain, if we take any action on what we call neutrality for peace, that it does not become an act of war.

Mr. ANDERSON. Mr. Baruch, I was not here last week and unfortunately I did not hear the first part of your discussion. I would like to ask this question: I have read this bill and I cannot see just where this bill covers this point: Out in my district we have various industrial concerns that, before the World War, were engaged in various different sorts of manufacturing. One concern out there, I know, made motors and switches.

Mr. BARUCH. What district is that, sir?

Mr. ANDERSON. In Missouri. One large concern out there made electric motors and ignition switches; they were in the electrical business. Naturally, when the war came along, they went into the mu-

nitions business because the profits were big. Now, say a state of war would occur again and this concern could not make as much money out of munitions, under this bill, as they had made out of manufacturing these motors, in what part of this bill is there anything that would compel the President and give him the power to make this concern go into the munitions business?

Mr. BARUCH. Those special cases become very important and, in this instance, as we did in the last war, and what we would have to do in the next war, the Government will have to make a contract at a price that will give this man a chance to amortize his property, amortize his expenditures, or the Government would take them over at the cost price. And under this bill he has a wide power to do those things.

Mr. ANDERSON. What section covers that? Does section 3 cover that?

Mr. BARUCH. That power is now inherent in the War Department. They can make all those contracts.

Mr. ANDERSON. Is that section 5; does that cover that?

Mr. BARUCH. He might do it under section 5, but the War Department makes all of those contracts.

Mr. ANDERSON. Could not those various firms, under this bill, just refuse to go ahead and make munitions and keep on making the product they were making?

Mr. BARUCH. If they refused to make them and the Government thinks they ought to, they can commandeer the plant and put men in charge who will make them.

Mr. ANDERSON. In this bill, they have the right to commandeer?

Mr. BARUCH. Oh, yes.

Mr. DORSEY. Then, in accordance with your statement, Mr. Baruch, I assume you feel it is impossible to get away from the cost-plus contracts during a war in cases similar to this?

Mr. BARUCH. No; I do not think so. Another thing: Let us not get our minds confused with the cost-plus in the World War and the cost-plus now. With the cost-plus in the World War—there was not a determined factor; whereas, if you did want to give a cost-plus contract under this provision, every one of your factors are known; the ceiling is on the prices and the Government has a firm grip on all the component parts of everything which goes into a manufactured product. In the World War we did not have it.

Mr. DORSEY. How can we get away from it, then, with an industrial set-up that is not at the present time equipped to turn out the maximum for war purposes the production of goods for war activities, such as new equipment, tools, jigs, fixtures, dies, specialized machinery? How do we expect private industry to manufacture war equipment unless the Government does control it and agrees, as it did with the railroads, to finance it in some way?

Mr. BARUCH. I believe they go into great detail in the Senate bill, or in one part of it—in the financial part of it—whereby the Government will advance to some particular manufacturer that it wants to go into the munitions business so much money, and either the Government will take that back or it will pay a man back his money with some profit.

Mr. ARENDS. Just one question with reference to labor: You said labor was satisfied during the last war.

Mr. BARUCH. Yes.

Mr. ARENDS. You had no difficulty with them at all?

Mr. BARUCH. Oh, we had some difficulties.

Mr. ARENDS. At that time they could operate under good prices and good pay; and now if we freeze these prices—freeze the wages—I am just wondering if you could anticipate, by any stretch of the imagination, there would be no trouble.

Mr. BARUCH. One of the difficulties is the price of wages, as you see, in many of the strikes today. Any man who thought about it knew labor had to go up—the price of labor. As a matter of fact, the “white collar” brigade—their wages ought to go up, too—but nobody is making a fight for them—because the prices of everything they have to buy have gone up. Therefore, there ought to be a raise in wages. And I do not know how you can get it, if an industry was not intelligent, except through strikes. But in wartimes, you do not let the component things go up; rents do not go up; the price of nonservices do not go up; the price of boots and shoes does not go up. But the price of some things during the World War just went sky high, undoubtedly, because we did not have the physical time to take hold of them and did not have the power. And we had to do it by indirection. But here labor will have the same relationship in wartime as it did in peacetime; I mean their wages do not go up, but the price of the things they buy with their wages does not go up; it is to remain the same.

Mr. ARENDS. But because of the demand for their services, do not you suppose they will say: “Now, let us get better wages; let us strike for better wages”? Even though the prices of things were down, that does not make any difference, because will not they say: “They need manpower; let us strike for better wages.” You do not anticipate that?

Mr. BARUCH. I do not know what is in the hearts of other men. But if in the light of your circumstances you do just everything you can see from experience, with the best study you can give it, you have done the best you can, and you will have to depend on the Lord for the balance.

Mr. SMITH. Mr. Baruch, I merely want to call your attention to the fact there are several bills before this committee which would provide for the acquiring by the War Department of a war reserve of materials in which we are deficient, and I think we will have hearings and hope we will have action on those bills, and they mention some of the things you mention—manganese, tungsten, chrome, tin, and there may be others added to it. I merely call your attention to the fact there are such bills pending.

Mr. BARUCH. Mr. Chairman, since I have perhaps been a little critical of the War Department, I would like to say this—that if we had followed their advice and judgment when prices were very low, and when they were continually advocating to the authorities some several years ago to purchase various things like tin, manganese, nickel, and all those things, we could have saved ourselves a great deal of money. But, unfortunately, we could not get anything done, and the prices now are up two or three times what they were. But they had a better judgment of industry than some of the men in industry had.

The CHAIRMAN. Are there any further questions of Mr. Baruch? If not, the committee will stand adjourned.

TAKING THE PROFITS OUT OF WAR

TUESDAY, FEBRUARY 9, 1937

HOUSE OF REPRESENTATIVES,
COMMITTEE ON MILITARY AFFAIRS,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Lister Hill (chairman) presiding.

The CHAIRMAN. The committee will come to order.

Colonel HARRIS, will you come around please, sir? Colonel HARRIS, gentlemen, is from the War Department.

STATEMENT OF COL. C. T. HARRIS, JR., DIRECTOR OF THE PLANNING BRANCH, OFFICE OF THE ASSISTANT SECRETARY OF WAR

The CHAIRMAN. Colonel, we would like very much to hear from you on this bill (H. R. 1954) entitled "A bill to prevent profiteering in time of war and to equalize the burdens of war and thus provide for the national defense and promote peace."

You are in the office of the Assistant Secretary of War, which office is charged with the matter of industrial mobilization and industrial planning for war and the handling of all industrial preparedness, so to speak, and we would like to hear from you on this bill.

Colonel HARRIS. Mr. Chairman, in compliance with your request, I am appearing before your committee as the representative of the War Department. I am instructed to state that the War Department has made a careful study of H. R. 1954 and its companion bill in the Senate, S. 25.

The views of the War Department on this legislation have been reduced to writing and, in accordance with prescribed administrative procedure, have been referred to the Bureau of the Budget for a report as to whether these views are in conformity with the policies and program of the President. No reply has yet been received.

In case your committee desires me to continue the presentation of War Department views on H. R. 1954, I am instructed to emphasize that the War Department has not been informed as to whether the views here presented do or do not conform to the policies and program of the President.

The CHAIRMAN. In other words, you have not heard from the Bureau of the Budget yet?

Colonel HARRIS. That is correct.

The CHAIRMAN. With that understanding, Colonel, suppose you go ahead and give the War Department's views, it being understood

that the War Department has not yet heard from the Bureau of the Budget on the bills.

Colonel HARRIS. Yes, sir.

STATEMENT OF WAR DEPARTMENT VIEWS ON H. R. 1054, A BILL TO PREVENT PROFITTEERING IN TIME OF WAR AND TO EQUALIZE THE BURDENS OF WAR AND THUS PROVIDE FOR THE NATIONAL DEFENSE AND PROMOTE PEACE

The bill, as a whole, is favorably considered by the War Department. The broad control measures provided form the basis of the recently revised industrial mobilization plan of the War and Navy Departments to launch an orderly procurement program of munitions and carry it promptly forward when an emergency is faced.

In the interest of national defense, it is considered desirable that a basic law delegating these controls within the authority of the President be enacted in time of peace. Such action in time of peace will tend to insure prompt execution in time of an emergency, and, moreover, will give war-procurement planning a sound basis of legal authority.

In this connection it may be stated that one of the efforts in this planning is to initially distribute the war-production load to such an extent that the regular peacetime vocations of industry may continue to the extent possible under the circumstances.

In order to provide this production distribution and to effect this desired result the control measures carried in this bill should be immediately available to the President if and when a war emergency is at hand.

Sections 1 and 2 of the bill contain price-control measures. The War Department has heretofore proposed and endorsed wartime price control. The wording of section 1 leaves uncertainty as to whether or not control of wages and salaries for personal services is authorized therein.

In measures previously proposed by the War Department, there has been advanced the premise that all elements of the Nation should be treated alike in war legislation; and it is felt that if the control of prices in general is provided, the control of wages should be included. Any effective price control must, of necessity, include all elements entering into cost. Therefore, it is suggested that the word "service" be included with "article or thing", in line 7, page 1.

The enactment of an inflexible plan of price control would, in the opinion of the War Department, be highly inadvisable. The proposals in sections 1 and 2 of the proposed bill are excellent in that they will permit the President to apply the price-control structure in successive segments or panels for groups of materials or commodities rather than as one all-embracing imposition of a price ceiling.

The administrative difficulties that would be entailed by the latter procedure would be insurmountable, and the price-control activity would soon become discredited through failure of enforcement. The flexible provisions provided in this bill would enable the problem to be met through successive steps as the necessity arose and the administrative machinery had been constructed to make the legislation effective.

That portion of section 3 providing for a military draft of the unorganized militia in the discretion of the President, subject to

such conditions, rules, and exemptions as he may impose is favorably considered. In the interest of clarity it is believed the words "and naval" should be added after the word "military", in line 12, page 2, and "or naval" added after the word "military", in line 13, page 2.

The further provisions of section 3, for needed governmental controls, through the President, of the material resources and industrial organizations of the Nation, form the foundation upon which industrial mobilization in time of an emergency is built. Immediate authority will then exist to set up and function a wartime civilian agency, similar to the War Industries Board, to guide the industrial effort of the Nation in support of the armed forces and to protect insofar as possible the peacetime pursuits of the Nation.

Security and commodity exchanges should be specifically included within such control. Procurement planning to date has emphasized the fact that certain war-material production must be given initial preference by industry; certain raw materials and commodities must be nationally controlled; certain regulations affecting conservation and prevention of waste may be necessary; transportation, power, and fuel must be supervised, as well as price control and war trade, including exports and imports. The War Department endorses the principle that war should not be an excuse nor an opportunity for undue or excessive profits and maintains that the controls herein discussed, concentrated in one or more agencies responsible directly to the President, will be of material assistance in limiting profit as well as in the coordination of the industrial effort. It may be further stated that this provision is not considered to be in conflict with section 120 of the National Defense Act, which permits the President, in time of war, or when war is imminent, to place compulsory orders with industry for required products or material.

Section 4, giving the President the optional authority to require persons engaged in industrial management to register and to be brought into the service of the Government as civilians, is favored by the War Department as a compulsory adjunct to the industrial controls provided for in the preceding section just discussed. While it is expected that industry and the managements thereof will cooperate with the Government in any war effort in which the security of the Nation may be imperiled, occasion may arise when the exercise of the arbitrary authority conferred by this section may be necessary.

Section 5 provides for the control of designated business activities through licenses. Similar control was exercised in a number of instances during the World War by authority of a series of statutes. License control is an administrative measure necessary to put into effective operation the controls provided for in this bill. It appears that "owners" should be included with "dealers, exporters," and so forth.

Section 6 provides the priority controls necessary to bring the national assets to the national needs. Through priority, acting under the controls covered in section 3, the needs of the Nation will be filled in the order of essentiality. Priority is one of the basic industrial controls to render effective industrial support to the Nation in time of war.

Section 7 authorized the President to create new, and to rearrange existing agencies to carry into effect the provisions of this act. It is not deemed advisable to limit the authority over existing agencies

to those of strictly executive functions. Other agencies may be in existence at the time, having certain administrative responsibilities relating to procurement of military supplies, and for this reason it is recommended that, if any such do exist, the same authority be extended over those functions.

It is also recommended that the President be given authority to suspend, during the period of the emergency, the whole or part of any law or laws of the United States relating to the procurement of supplies for the Military and Naval Establishments when, in his opinion, such laws impede such procurement activities.

No comment seems warranted as to penal provisions, section 8.

Section 9 imposes an excess-profits tax to be effective during the period of war. The War Department refrains from commenting on this section, believing that other agencies of the Government are better qualified and have more direct responsibilities in connection with taxation measures.

It is desired to emphasize, however, that any tax measure adopted must not remove the incentive to produce, and thus threaten the more vital activity of securing the munitions required in war.

Attention is invited to some rather peculiar results which might come from the operation of this section as now written. Assuming that this section applies to every person, soldiers as well as civilians, regardless of the amount of his income during the 3 years next preceding the declaration of war, then officers and soldiers of the Regular Army promoted during the previous 3 years would receive a decrease in pay during the emergency, and officers, noncommissioned officers, and privates promoted to higher grades during the emergency would have to refund practically all of the amount representing increase in pay due to such promotion.

Similarly, it is possible that the average income of many of the soldiers drafted for the emergency, with respect to the 3 years next preceding the declaration of war, would be less than their soldiers' pay, thus necessitating a refund of part of even that small amount, and the same principle would apply to the pay of some emergency officers regardless of rank.

If this section is not intended to apply as above indicated, it is suggested that it be amended so as clearly to be inapplicable.

It appears advisable to add two additional sections to the bill—one, suspending during the effectiveness of the proposed bill all acts or parts of acts conflicting or inconsistent with the provisions thereof, and another section providing that the whole act shall not become invalid in the event any provision thereof shall be nullified.

To make effective the changes discussed above, and other small changes in phraseology to insure uniformity, the following specific amendments are recommended:

Section 1: Change line 7, page 1, to read:

article, *service*, or thing enumerated in such proclamation, or proc."

Section 3: Change line 10, page 2, to read as follows:

ency due to the imminence of war, declared by Congress to exist, which in the judgment

Change lines 12 and 13, page 2, to read as follows:

military and naval establishments, the President be, and he is hereby, authorized to draft into the military or naval service of the United

Change line 21, page 2, to read as follows:

resources, industrial organizations, public services, and security or commodity exchanges over

Section 4: Change lines 1 and 2, page 3, to read as follows:

SEC. 4. During the period of any war or national emergency due to the imminence of war, declared by Congress to exist, the President is hereby authorized,

These changes, Mr. Chairman, are to bring all the sections in uniformity with section 1.

Section 5: Change lines 12 and 13, page 3, to read as follows:

SEC. 5. During the period of any war or national emergency due to the imminence of war, declared by Congress to exist, the President is authorized to deter-

Change line 16, page 3, to read as follows:

right, or of owners, dealers, exporters, importers, manufacturers, or

Change lines 21 and 22, page 3, to read as follows:

unlawful for any such determined classes to operate without such license.

Section 6: Change lines 23 and 24, page 3, to read as follows:

SEC. 6. During the period of any war or national emergency due to the imminence of war, declared by Congress to exist, the President is authorized to deter-

Change line 1, page 4, to read as follows:

any owner, manufacturer, dealer, producer, exporter, importer, or

Change line 4, page 4, to read as follows:

and proclamation it shall be unlawful for any such owner, manufac-

Section 7: Change line 14, page 4, to read as follows:

such rearrangements of executive agencies, or any other agencies having administrative responsibilities relating to procurement, and of bureaus

Change line 17, page 4, to read as follows:

of war, or for the meeting of such national emergency; and, likewise, is authorized to suspend by proclamation the whole or part of any law or laws of the United States relating to the procurement of supplies for the Military and Naval Establishments when in his opinion such laws impede such procurement activities.

Section 10: Add a section 10, to read as follows:

SEC. 10. All Acts or parts of Acts conflicting or inconsistent with the provisions of this Act are to the extent of such conflict or inconsistency suspended during the effectiveness of this Act.

Section 11: Add a section 11, to read as follows:

SEC. 11. If any provision of this act, or the application thereof to any person or circumstances, is held invalid, the remainder of the act, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

With reference to the suggestion to add the proviso that laws which impede procurement might, within the authority of the President, be nullified during the period of the emergency, I have listed here some 15 instances.

If the committee desires, I can read this statement.

The CHAIRMAN. You better give it to us so that we will know about it.

Colonel HARRIS. I will also put this in the record.

The CHAIRMAN. Yes, sir.

Colonel HARRIS. Listed below are some of the existing laws containing certain restrictions on peace procurement activities. These restrictions would apply equally to war production; and unless optional authority is delegated to suspend their effectiveness, in whole or in part, in time of an emergency, industrial mobilization would be impeded through their operation.

1. Necessity of written authority from Secretary of War to advertise in newspapers (R. S. 3828).
2. Prohibition against transfer of contract or any interest therein (R. S. 3737).
3. Prohibition against acceptance by Government of voluntary service (R. S. 3679).
4. Appropriations shall apply solely to the objects for which they are made (R. S. 3678).
5. Prohibition against advanced payments (R. S. 3648).
6. Approval by Secretary of War of all building contracts over \$5,000 (40 Stat. 74).
7. Approval of Congress required for the erection of permanent building (19 Stat. 242; circumvented during World War by considering all construction as temporary).
8. Preference must be given American vessels in shipments of coal, provisions, supplies of any description purchased for use of Army or Navy (33 Stat. 518).
9. Preference directed for articles of domestic production and deliveries to Pacific coast points for Pacific coast consumption (R. S. 3716).
10. Approval of title by Attorney General before expenditure of funds on any site for a public building (R. S. 355).
11. Necessity of advertising before purchase of steel (26 Stat. 769).
12. Limitation on rental or repair of leased buildings (47 Stat. 412, as amended).
13. Limitation on employment of civilians in Washington (22 Stat. 255).
14. Limitation in current appropriation acts on purchase of typewriters, motor vehicles, etc.
15. Restrictions imposed by Walsh-Healey Act (Public, No. 848, 74th Cong.), such as contractor must be regular dealer in supplies purchased, 8-hour day, etc.

There are others, Mr. Chairman.

The CHAIRMAN. Colonel, how long have you been in the office of the Assistant Secretary of War?

Colonel HARRIS. Three years and 9 months.

The CHAIRMAN. To what branch of the service do you belong?

Colonel HARRIS. I am an officer in the Ordnance Department.

The CHAIRMAN. During those 3 years and 9 months have you been devoting most of your time to this matter of industrial mobilization?

Colonel HARRIS. My entire time, sir.

The CHAIRMAN. You read a letter which the War Department has sent over to the Bureau of the Budget, as I understand it. Did you do most of the ground work for that letter, if I may ask?

Colonel HARRIS. I was responsible for the preparation of that letter.

The CHAIRMAN. In other words, you personally have studied this bill, have you?

Colonel HARRIS. I have, sir.

The CHAIRMAN. As I understand your amendments, they were in the nature of what we might term perfecting amendments. Is that correct or not?

Colonel HARRIS. Yes, sir. The subject matter of this bill is excellent. It is an excellent bill. The amendments which we are proposing are perfecting amendments and to cover one or two angles that from our experience, operating under such a bill, occur to us as being necessary.

The CHAIRMAN. In other words, there is nothing in your suggested amendments that is in any way repugnant or contrary to what we might term the underlying philosophy of the bill?

Colonel HARRIS. That is correct, sir.

The CHAIRMAN. You agree, then, with the fundamental principles of the bill?

Colonel HARRIS. Yes, sir.

The CHAIRMAN. Has the committee any questions?

Mr. MAY. Mr. Chairman, just one or two. On the question of ordnance supplies and materials, what is the reason why it would not be a good idea for the War Department to make some investigation, if they have not already done so, as to the availability of such supplies and materials as manganese ore, which is an absolute necessity as a war material?

Colonel HARRIS. The War Department has made a very exhaustive study of the sources of manganese ore in this country, as well as in other countries of the world, and has prepared plans, stating our requirements and the probability of being able to meet them.

Mr. MAY. Is it a fact that we are rather destitute of manganese in this country?

Colonel HARRIS. We would not have one-third of the amount of manganese required in time of war or in time of peace from domestic production. At the present time we do not have 10 percent of the national requirement from domestic production.

Mr. MAY. What do you think, as a matter of precaution, as a preparatory measure of the War Department, utilizing some of its forts in storing some manganese, or something of that kind, at strategic points where it could be available in the event we needed it?

Colonel HARRIS. The War Department has proposed, and has supported other proposals, in connection with stock pile reserves of manganese, as well as other minerals of which we have a shortage.

Mr. SHORT. From where do we import most of our manganese, outside of Brazil and Russia?

Colonel HARRIS. The principal sources of manganese in the world are Russia, India, the Gold Coast of Africa, and Brazil. We are receiving more from Russia than any other country.

Mr. SHORT. How many States in this country produce it?

Colonel HARRIS. There are meager manganese deposits in almost every State which has other mineral deposits, but these deposits are mostly of low-grade manganese ore. There is plenty of low-grade manganese ore in this country but there is a scarcity of what is known as the Ferro grade manganese ore, that is ore of 50 percent metallic manganese.

Mr. SHORT. Are you aware of the fact, Colonel, that since the negotiation of the reciprocal tariff treaty with Brazil last year, or about 18 months ago, that a large firm in Arizona has invested about \$5,000,000 in this?

Colonel HARRIS. I am familiar with the developments generally speaking, since the passage of that agreement, but I did not know of that particular case.

Mr. SHORT. Do you think it would be wise for us to try to develop more manganese in this country?

Colonel HARRIS. We are faced with two conflicting thoughts there. We have only a limited supply in the ground. From a national de-

fense point of view, that small reserve in the ground is of greater value to national defense by remaining in the ground than it would be by being mined and sold.

Mr. SHORT. Yes, sir. We are storing some manganese, are we not?

Colonel HARRIS. The Government is not storing any manganese.

Mr. SHORT. None?

Colonel HARRIS. None. Industries have a stock of several months' supplies.

Mr. HARTER. Colonel, these various essential raw materials, in the case of national emergency, in addition to manganese, comprise several other items which we do not produce in this country which would be necessary, do they not?

Colonel HARRIS. That is correct, sir.

Mr. HARTER. Such as rubber and tin?

Colonel HARRIS. About 26 materials are on what we call our strategic-material list, that is, of materials for which the domestic supply would be totally inadequate in time of war. There are some 9 minerals on this list of 26, such as manganese, chromium, tin, nickel, tungsten, antimony, mica, and then there are others.

Mr. HARTER. Rubber?

Colonel HARRIS. Rubber is one. There are some fibers, jute, sisal, manila fiber, there are some drugs, such as opium. There are five drugs. We are short of coffee and our supply of sugar, domestic supply of sugar, is not adequate, but we are very close to world sources.

Mr. HARTER. Did I understand you to say that the War Department had made up estimates for the procurement of a certain supply of these various articles so that they would be on hand in case of any national emergency?

Colonel HARRIS. Our studies have been devoted to the questions of how much would be required for the national needs, how much is usually on hand in this country, what the possibilities of domestic production are, and what are the most likely world sources. We have not been able to secure a stock pile reserve of any of these materials.

Mr. HARTER. That would take the appropriation of additional moneys by the Congress, would it not?

Colonel HARRIS. It would take approval by the Congress and funds.

Mr. HARTER. And no stocks have ever been built up?

Colonel HARRIS. No, sir. We did have left over from the war some of these necessary materials. In the case of platinum, that reserve is maintained today.

Mr. FADDIS. Mr. Chairman and Colonel Harris, I might say for the information of those members on the committee who are not aware of the fact, that I have introduced a bill providing for the acquisition of certain essential materials in this country in time of war, and I intend to ask for hearings upon this bill at a very early date, as soon as the committee has the time to devote to it.

Mr. MAY. Does your bill provide for acquisition during wartime or previous?

Mr. FADDIS. During peacetime, to store them in this country, and this bill is drafted along the lines of the recommendations of Colonel Harris and the War Planning Division.

You undoubtedly know of that bill, Colonel?

Colonel HARRIS. Yes, sir; I have seen it.

Mr. FADDIS. I will state as a matter of information, that I am going to ask for hearings on that bill at a very early date.

Mr. EDMISTON. Colonel, of these necessary materials, which ones of the nine in that list of 26 are most needed and the hardest to procure in the event of war?

Colonel HARRIS. Naturally some of the materials have a higher importance and are more difficult to obtain than others. I place manganese at the top of the list, chromium next, and the minerals more or less at the top of the list. Rubber would have a high priority also. I put manganese and chromium at the top.

Mr. EDMISTON. Rubber and tin can be used over and over again?

Colonel HARRIS. It has been estimated that we can use reworked rubber and get perhaps 40 percent efficiency out of the rubber. We have a detinning industry in this country that in time of war could produce 30 percent of our requirements, and under stress of war it could probably be slightly increased.

Mr. FADDIS. That is all, Mr. Chairman.

Mr. MERRITT. Colonel, have not we made some provision for the raw materials through the Tennessee Valley Authority?

Colonel HARRIS. The Tennessee Valley Authority has charge of the nitrate plant at Muscle Shoals, and they are making certain researches into the possibilities of developing materials in the Tennessee Valley.

Mr. MERRITT. If these researches turn out favorably, that will eliminate some of this foreign-country participation, won't it?

Colonel HARRIS. Researches have been made for years and have not been particularly successful in developing materials to supply the shortage. There is no substitute for manganese. Without manganese the steel industry would produce a very inferior quality of steel, and there is no substitute.

Mr. CLASON. I wonder how much it would cost in these days, when we talk so much about deficits, to lay in a supply of these required materials?

Colonel HARRIS. To lay in a supply of the materials which we believe should be in the stock-pile reserve, eliminating any duty charges, would cost approximately \$100,000,000.

Mr. CLASON. How long would that supply last?

Colonel HARRIS. That is figured on 2 years of war.

Mr. CLASON. In other words, you feel that would be a good measure for the Government to adopt, do you not?

Colonel HARRIS. I do, sir.

Mr. CLASON. In other words, if we were prepared for war, other countries would be less likely to attack us?

Colonel HARRIS. I would like to say one thing, however. This question of reserves of raw materials is a national question rather than a military question. The needs of the Army and Navy are relatively small. We could commandeer from stocks available right now the amounts that the Army and Navy would require for their use, but these materials are needed in national industry so that the peacetime activities of the country would go forward. It is the national industry that requires these reserves. Therefore, it is more of a national problem than it is a problem pertaining to the Army and Navy.

Mr. CLASON. Then these reserves are not solely for the Army and the Navy but for the whole Nation?

Colonel HARRIS. These reserves which I mentioned are to carry the national industry through 2 years of war.

Mr. CLASON. What would you do—keep selling off every year as fast as the goods start to deteriorate, and keep buying fresh goods?

Colonel HARRIS. The ones which we have felt should be stored are the ones which would not deteriorate through storage. For example, if stocks of rubber were stored, they would have to be turned over, because rubber would not stand indefinite storage; but manganese, tungsten, chromium, and all the minerals will keep indefinitely.

Mr. CLASON. What about the drugs?

Colonel HARRIS. While the drugs will be short, we have not placed them on this list for stock-pile reserve. There are many conservation measures which could be taken in time of war, like prohibiting the use of strychnine to kill vermin, which uses half the amount consumed. By denying that use in time of war, it would make the remainder available for the needs of men and would go a long way toward solving the requirements of that particular strategic material.

Mr. CLASON. There is only one other question which I would like to ask, and that is probably because I am a new Member. Before you read this statement, I understood somebody had approved it. I was wondering who approved this statement—or is that your own statement?

Colonel HARRIS. No, sir; that is the statement of the Secretary of War. I would not present my own statement.

Mr. CLASON. That is the statement of the War Department itself?

Colonel HARRIS. That is the official position of the War Department, approved by the highest authorities in the War Department.

Mr. CLASON. That is all.

Mr. ANDERSON. Colonel, of these 26 materials, what percent of imports is involved?

Colonel HARRIS. About what percentage is involved?

Mr. ANDERSON. Of the different materials which are imported.

Colonel HARRIS. It varies with different ones. There is a very small domestic production of chrome, and therefore it is largely imported. There is practically no production of ferromanganese ore except the kind going into the manufacture of batteries. That is practically all imported. There is no production of nickel, and that is all imported. There is no production of virgin tin, but there is about a 30-percent recovery from tin-plate scrap. So that the figures vary for each one.

I would say that at least 50 percent of the 26 articles listed are imported for the Nation's needs.

Mr. BROOKS. Colonel, what about oil? Is there sufficient oil produced in this country?

Colonel HARRIS. There have been many estimates made on the supply of petroleum. I have heard it stated by Government departments charged with that responsibility that we have 12 to 15 years' supply already identified. At the present time we have no shortage of petroleum; but what the future holds, nobody knows.

Mr. BROOKS. In respect to sugar, what provision, if any, would you suggest in reference to that commodity; that is, the accumulation of a supply?

Colonel HARRIS. Due to the proximity of Puerto Rico, and Cuba particularly, and our own domestic supply, I do not believe in time of war we would have any shortage of sugar.

Mr. BROOKS. I believe that is all.

Mr. WILCOX. May I interpolate at this point, Mr. Chairman?

The CHAIRMAN. Yes, sir.

Mr. WILCOX. Colonel, assuming that we adopt a policy of so-called neutrality, by which we prohibit the shipment of any goods or materials, including foodstuffs, to belligerents, it is reasonable to assume that other nations will adopt the same policy toward us. We import about 40 percent, I believe, of our total sugar supply from the Republic of Cuba, which is an independent nation. In the event Cuba should adopt the same neutrality policy that we are now contemplating for this country, would we not then be short about 40 percent of our supply of sugar?

Colonel HARRIS. I think your question almost answers itself. I do not want to talk too much about these political matters.

Mr. WILCOX. That is not a political matter but is an economic matter. It is a national question.

Colonel HARRIS. I will say that I agree with you; yes, sir.

Mr. BROOKS. Colonel, may I ask one more question? In reference to that, then, your argument would be to increase the domestic production. Is not that the idea?

Colonel HARRIS. In some cases, yes; and in some cases, no. Where we have ample resources, where industrial production can stand on its own economic feet and would not require a subsidy, I would be in favor of it; but if it requires a subsidy and becomes a weak industry and exhausts our limited reserves, I would be opposed to it.

Mr. WILCOX. Colonel, you do not mind if I quote you for about an hour and a half on the floor?

Colonel HARRIS. I have been threatened with being hung before.

Mr. MAY. There is one question, Mr. Chairman.

The CHAIRMAN. Mr. May.

Mr. MAY. Colonel Harris, when you speak of the requirements of the War Department, is that based upon a major conflict?

Colonel HARRIS. Yes, sir; that is based on the national needs of a major conflict.

Mr. EDMISTON. Colonel, has the War Department ever followed a sort of subsidizing of industries policy which use these various materials, particularly manganese, and getting them to keep a larger supply on hand than they would need for their own requirements? I have in mind the Carbide & Carbon Co., which has a large manganese plant in my district in West Virginia. They import their manganese largely from Africa. They get ferromanganese, ferrochromium, ferrosilica, and the necessary ingredients for steel in this plant. They have ample storage space there for manganese and have great mounds of it stored in this plant. I wondered if the War Department ever thought of aiding those people in keeping on hand a larger supply than they could afford to do for their own business.

Colonel HARRIS. Mr. Edmiston, we have thought of every possible solution to this problem, I think. We talk a lot about manganese; but, without duty, you could supply the whole requirements of manganese for \$11,000,000. The question of subsidizing somebody to

keep it in storage would bring in a very complex accounting relationship to the Government, so that I do not believe it would work.

The CHAIRMAN. Are there any further questions?

Mr. SHORT. How about lead and zinc?

Colonel HARRIS. We have got plenty of lead and zinc.

The CHAIRMAN. In Missouri?

Colonel HARRIS. In Missouri and elsewhere.

Mr. SHORT. We would like to sell you some more.

The CHAIRMAN. If there are no further questions, that is all, Colonel.

The CHAIRMAN. Miss Rankin, do you want to say something on this bill? You were with us 2 years ago when we had hearings on the bill then, and you made a statement, and I judge you want to be heard during this hearing some time.

Miss RANKIN. I would like very much to be heard during the hearing. I don't suppose it makes much difference when. I do not suppose I would be any better prepared, because I am going to say the same thing I said last year, but I would like to say it again.

The CHAIRMAN. We will permit you, Miss Rankin, to make your statement. Miss Jeanette Rankin, former Member of the House of Representatives.

STATEMENT OF MISS JEANETTE RANKIN, REPRESENTING THE NATIONAL COUNCIL FOR THE PREVENTION OF WAR

The CHAIRMAN. At the present time what is the name of your organization, Miss Rankin?

Miss RANKIN. I am with the National Council for the Prevention of War.

The CHAIRMAN. All right, Miss Rankin, we would be glad to have you make any statement which you see fit.

Miss RANKIN. I did not expect to be heard this morning. I could talk to each one of you separately, and yet I find it rather difficult to talk to you all together.

I think that the first problem that is before this committee is to decide what our military policy is. Is our military policy to fight wars in other countries and to be prepared to fight the world? If we are going to be prepared to fight in other countries, we should be prepared to fight a combination of the whole world. Nothing less than that would be adequate. If we are going to prepare for a major conflict, we should plan accordingly. If we are going to prepare to carry out a military policy which is in conformity with our national policy expressed in the Kellogg Pact, which says that we will not settle our disputes in other countries by war, then we have another problem.

There is nothing in the pact which prevents us from protecting our shores from invasion. It seems to me that before we continue to prepare for the next war we should decide what our military policy is going to be, whether it is to fight the world or to protect our shores from invasion.

This should be determined, since our treaties are a part of the supreme law of the land.

The Constitution says that the supreme law of the land is made up of the Constitution, the laws of Congress, and all treaties. We have

ratified this treaty, we have given our solemn pledge that our national policy is to renounce war for the settlement of disputes, and as long as that exists, it seems to me that we should state our military policy to be to protect our shores from invasion.

Mr. FADDIS. Will the lady yield right there?

Miss RANKIN. Yes, sir.

Mr. FADDIS. Mr. Chairman, we have some important matters to take up in executive session, matters which have been delayed for quite a while. This subject is not pertinent to the legislation at hand, and while I do not wish to appear to be discourteous to Miss Rankin, nevertheless we have business before the committee, and we ought to either hear testimony on the legislation before us or go into executive session, I believe.

The CHAIRMAN. I am sure that the committee wants to extend every possible courtesy to Miss Rankin.

Miss RANKIN. It seems to me that it is pertinent, because it is on this basis that we are planning for a war, and what kind of a war? You can take the profits out of the military system to protect our shores from invasion, but you cannot take the profits out of a military system to fight the whole world, because in order to fight the whole world we must have a military system that is so gigantic that it makes profits in peacetime necessary, and the only way to get rid of profits in wartime is to take the profits out in peacetime.

It is possible to take the profits out of war in peacetime.

Of course, if you do not want me to talk, it is all right, but I would like to be heard on this question. If this is not the time, I could come back some other time.

The CHAIRMAN. Have you studied the bill before us, Miss Rankin?

Miss RANKIN. Yes, sir.

The CHAIRMAN. Do you or do you not favor the bill?

Miss RANKIN. I do not favor the bill.

The CHAIRMAN. You do not favor the bill?

Miss RANKIN. No, sir.

The CHAIRMAN. Now, if you are opposed to the bill, have you any plan of your own to suggest?

Miss RANKIN. Yes.

The CHAIRMAN. Could you summarize that briefly for us?

Miss RANKIN. That was what I was trying to do. I said that we should restate our military policy to protect our shores from invasion, and in that way we could take the profits out of peacetime preparations for war. As it is now, we have an armed truce. We are in practically a state of war and we are preparing for war. If we are preparing for war in other countries, we should be prepared to fight the world. I believe that we can protect our shores from invasion and take out the profits in peacetime to such an extent that we will not need to be worried about profits in wartime. Because as long as we are getting ready to fight the world, we must have the private manufacture of munitions in order to have enough munitions to supply a great emergency.

If we are preparing to protect our shores from invasion, then the Government can produce all the munitions that are necessary to keep other countries out of this country, and in that way we take the profit out of war from the munitions makers during peacetime.

It seems to me that that is the only way. There is no law which holds in war—not even the Constitution. The emergency and the desire to win breaks every law that is written before war comes. No law written in peacetime will hold in wartime. The only law that does hold is the practice of the people in peacetime which will go on in wartime.

Mr. FADDIS. Will the lady yield right there?

Miss RANKIN. Yes, sir.

Mr. FADDIS. There is one law which holds, the law of self-preservation.

Miss RANKIN. The law of military necessity, as stated by the War Department, and not as stated by the people. That is the only law which holds, the law of military necessity, not self-preservation, because we destroy ourselves in war. But the law of military necessity is the law which holds above the Constitution and above everything else.

I sat through a war Congress, and I heard it said over and over again, "What is the Constitution in wartime?"

You know perfectly well there is no way to take the profits out of war without an amendment to the Constitution, and even that won't hold.

The CHAIRMAN. Then, you do not think it is possible to legislate on this subject?

Miss RANKIN. Yes; I think it is possible to legislate to take the profits out of war by taking them out in peacetime, and that necessitates restating the military policy.

The CHAIRMAN. Have the gentlemen any question they would like to ask?

Mr. MAY. I want to ask one or two questions.

Your idea is that the United States should engage only in a defensive war and in no offensive war; is that it?

Miss RANKIN. I expect that is right. I do not like the words "defensive" and "offensive." I like to say, we will protect our shores from invasion, but we will refrain from going to other countries to settle disputes.

Mr. MAY. Are you aware of the fact that it has been the policy of the War Department for 50 years, and it has always been the policy of this country, to pursue a defensive war policy rather than an offensive war policy, and we have never started a war with anybody in the world?

Miss RANKIN. I do not know very much about history before the last war, but I do know this, that our National Defense Act is written on the basis of being prepared to go to other countries and put millions of men in another country to fight.

Since the National Defense Act was written we have said that our national policy is to give up war as a means of settling disputes, but we have not adjusted our military policy to conform with that new national policy.

This national policy is more than merely a treaty, because today we have an overwhelming public opinion against going to other countries to settle disputes. There is no one here in the War Department or anyone else, who suggests where we are going to fight a major conflict, whether we are going to fight a combination in Europe, or a combination in Asia, or where we are going to fight.

No one says we must be ready to fight these other countries, because it would be so unpopular among the people.

The people today want to protect our shores from invasion. They have the fear psychosis that has been created by the military system, and so they want to protect our shores from invasion. I think that we could take the profits out of war by protecting our shores, having everything that is necessary to protect our shores from invasion.

Mr. MAY. Will you pardon me again? Had you considered the modern preparation of other countries on the question of determining whether or not it is necessary for us to prepare? In other words, the countries of Europe and all other countries of the world are not what they were 25 years ago.

Miss RANKIN. But we are. We are still an island in the middle of an ocean. We are protected on two sides by oceans and by two friendly countries on the other two sides.

Mr. MAY. And you think that those two friendly countries, north and south, and those two oceans, east and west, are sufficient to keep a fleet of airplanes out of this country?

Miss RANKIN. Yes. I think it is sufficient with a fleet of airplanes and with these marvelous antiaircraft guns which are talked about and all those things that are good on a ship are good on shore, a little bit better on shore. All the military preparations that the militarists say are necessary to keep invaders out are all right, but we should not prepare to fight in another country.

The CHAIRMAN. Are there any further questions?

Mr. THOMAS. I would like to ask one or two questions.

Miss Rankin, have you ever seen an antiaircraft gun, the wonderful antiaircraft gun, as you term it, in operation?

Miss RANKIN. That was a description which I have heard from the militarists. It is not my description. I do not know about things military.

Mr. THOMAS. I do not know much about them, either, but sometimes they do not work out so wonderfully as they are supposed to. I would like to ask one serious question now. Do you not think that it might be necessary for this country really to defend itself by putting up a real offense? In other words, the best defense is a good offense.

Miss RANKIN. I heard a member of the Military Establishment say that the way to get something over to the country was to make a statement and if repeated often enough the people will believe it, and that is one of those statements. The best defense is from our own shores, according to other militarists.

For instance, General MacArthur stated the other day on the question of defense, that the morale of the people was the lowest when they are trying to attack a country, and so forth. There is no question in the world but what we can protect our shores from invasion with a relatively small proportion of the Military Establishment which we have today.

I happened to be in New Zealand shortly after the English tried to land the Anzacs at Gallipoli. Here on the island of New Zealand they said over and over again:

We are perfectly safe. You cannot land troops on an enemy's shores.

The situation at Gallipoli is the one modern engagement which we know of, and we know that that was a failure.

If you want to ask the militarists what they need to land troops on an enemy's shore in another country, and then reverse the problem, you will know that they cannot come over here. The largest number of troops which we sent to any other country in the war was 300,000 in 1 month. We had all the facilities of this country, we had a friendly sea, we had all the facilities of the ports of other countries, and we did not send them all at one time. We sent them in little driblets. They could not possibly send 300,000 here at one time. If they used all the facilities of all the countries it would take them 85 days to put 50,000 men on our shores.

Mr. THOMAS. Miss Rankin, do you not think that the military men know a little bit more about how to conduct a war than the average citizen would?

Miss RANKIN. I only quote militarists when I use statements about the military. I do not use my own. I select my statements.

Mr. FADDIS. In that connection, it might be interesting, Miss Rankin, if you would furnish the committee with the opinion of some militarists, showing where any major conflict has ever been won by a passive defense.

Miss RANKIN. I am not talking about a passive defense.

Mr. FADDIS. You are quoting militarists and using them to back up your argument. Your chief argument is to the effect that this Nation could win the war by a passive defense. No major conflict in history was ever won, except upon the territory of the loser.

Miss RANKIN. I do not think I said "passive defense." I said as long as we have this fear psychosis that we should have military defense.

Mr. CLASON. Does your organization approve of taking profits out of war, or is it opposed to taking profits out of war?

Miss RANKIN. They are very much in favor of taking the profits out of war, but they do not want to be disillusioned later by a bill which is futile, and legislation is futile which waits until war comes to be put in operation.

The only way to take the profits out of war is to take them out in peacetime.

Mr. CLASON. You are evading the issue, so far as this particular bill is concerned, which is what we are talking on today, and to which I think any evidence should be addressed that is germane. That question is, what would you say with respect to this bill as a way to take the profits out of war? Do you favor it or not?

Miss RANKIN. I do not favor it because it does not begin until war comes, and no bill which does not operate until war comes can be relied upon. The situation may be changed the day that war is declared.

Mr. CLASON. Is your organization in position to bring forward such a bill as it feels would take the profits out of war, starting any time?

Miss RANKIN. Yes, sir. It is a modification of Mr. McSwain's bill, which he had before this committee. Mr. Boileau, of Wisconsin, introduced it in the House last year, and it has been reintroduced this year.

Mr. MERRITT. Will the gentleman yield?

Miss Rankin, is it not a fact that your organization does not want any money spent for war materials at all?

Miss RANKIN. No; that is not our point at all. We say we ought not to have things made ready to go to other countries to fight and

settle disputes; that we should have all that is necessary to protect our shores from invasion.

Mr. MERRITT. Do you not think that is what we are trying to do?

Miss RANKIN. I doubt it, because I do not know what we could do with battleships, except go to other countries.

Mr. MERRITT. We could not patrol our shores with a rowboat.

Miss RANKIN. Certainly not with battleships. Admiral Simms says that if we should be attacked, we would put the battleships up the Mississippi River, and we certainly held them up the James River last time. Submarines would be better than battleships. The point is, we have not modified our military policy since the writing of the National Defense Act, which provides for going to other countries, and it is on the basis of not going to other countries that we are trying to take the profits out of war.

Mr. MERRITT. It is only a question of quality, then?

Miss RANKIN. No; it is quantity as well as quality.

Mr. MERRITT. I mean to keep our shores safe.

Miss RANKIN. Some things will prove useless to keep our shores safe, and some things will prove helpful.

Mr. BROOKS. Does your organization approve of the recent war in reference to the United States, that is, the World War?

Miss RANKIN. I do not know that, sir.

Mr. BROOKS. Do you approve of it?

Miss RANKIN. No; I voted against it, and I am still against it.

Mr. BROOKS. Do you approve of the Spanish-American War?

Miss RANKIN. I do not know about that; I was too young.

Mr. BROOKS. How about the Revolutionary War?

Miss RANKIN. I would not know about that, either.

Mr. ANDREWS. Mr. Chairman, I move we go into executive session.

The CHAIRMAN. We are very much obliged to you, Miss Rankin. We are going into executive session, but I understand there is a representative of the Navy Department here. Is that correct?

Capt. A. M. R. ALLEN. I am here representing the Navy Department as a spectator. The War and Navy Departments have gotten together in connection with the comments on this bill. I am not in a position to state further, as the Secretary has not signed our comments nor has the Bureau of the Budget passed upon them, and I am not in a position to give any testimony.

The CHAIRMAN. The committee will now go into executive session. (Whereupon the committee went into executive session.)

TAKING THE PROFITS OUT OF WAR

WEDNESDAY, FEBRUARY 10, 1937

HOUSE OF REPRESENTATIVES,
COMMITTEE ON MILITARY AFFAIRS,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Lister Hill (chairman) presiding.

The CHAIRMAN. The committee will kindly come to order. We have with us this morning, gentlemen, Mr. Millard W. Rice, legislative representative of the Veterans of Foreign Wars.

Mr. Rice, we would be delighted to have you come around and make any statement which you may see fit on the bill now before the committee to take the profits out of war, H. R. 1954.

STATEMENT OF MILLARD W. RICE, LEGISLATIVE REPRESENTATIVE, VETERANS OF FOREIGN WARS OF THE UNITED STATES

Mr. Rice. Mr. Chairman and gentlemen of the committee, the veterans of Foreign Wars is very much in favor of the principle of taking the profit out of war and out of war preparation, believing that it is a very important factor in a "Peace for America Program" in preventing war, and that that can be accomplished by preventing the accumulation of abnormal profit during war time or by reason of war preparation.

We had hoped that our national commander in chief, Col. Bernard W. Kearney, could be present at one of these hearings, looking forward toward that possibility for the first part of next week, I understood that the committee wished to wind up these hearings as soon as possible. In any event, the national commander had the misfortune to have a broken kneecap and could not come down at this time.

The V. F. W. is in favor of the general principles of this bill, H. R. 1954. Prior to its introduction, however, we had been studying the bill directed toward the same end which had had considerable study during the preceding session of Congress, and we had made arrangements for the introduction of such a bill, now H. R. 4202, which was referred to the Ways and Means Committee, designed to take the profits out of war, designed to provide for proper mobilization of industry and manpower.

Inasmuch as this other bill, known as H. R. 4202, was framed on the basis of what had been prepared after long consideration through the House Committee on Military Affairs, the Senate Special Committee on the Investigation of Munitions, and then by the Senate Committee on Military Affairs, thus embodying what had been arrived at by such committees up to the time of its being reported out by the Senate Committee on Military Affairs during the Seventy-

fourth session of Congress, and therefore goes into considerably more detail than does this bill, the V. F. W. sponsored the introduction of H. R. 4202.

We have no disagreement with the principles of this bill, H. R. 1954, merely believing that the bill, H. R. 4202, which has been submitted and is before the House Ways and Means Committee, goes into more detail and therefore makes more sure of retaining the civil rights of citizens during time of war and at the same time mobilizing industry and manpower in such a way as to be effective for the interests of the defense of the Nation.

The financial or tax provisions of the other bill, going into much more detail, are much preferable to the simple tax provision in this bill.

It is very difficult to criticize this bill specifically, and I do not wish to be put into the position of doing so, because it would be infinitely better than is now the situation. It is certainly a step in the right direction.

We would, however, urge that the bill be further amended by incorporating all of the provisions now in H. R. 4202 relative to steeply graduated income taxes, estate taxes, excess-profits taxes, surtaxes, and so forth, and also that it be amended to go into more detail as to the steps which should be effected in the event that this country were to be involved in war.

There are some other provisions not taken up in either one of these bills which should be taken into consideration in trying to prevent war or in equalizing the burdens and profits of war. One would be that there ought to be assurance to the veterans of possible future wars that if they were disabled they would receive the same benefits as granted to disabled veterans of the last war, and that their dependents would be given the same benefits as were granted to the dependents of the veterans of the last war, being granted to them at the time that such future war, if any, might begin.

That, of course, can be subject to another bill, and is perhaps not properly a part of this bill. We do believe certainly that there ought to be provisions in this bill which would prevent individuals who have a personal interest in any certain industry from having any power of decision concerning the Government's contracts with such company.

We would like to see a provision in the bill which would provide that there be a licensing of all manufacturers of munitions during peacetime as well as during wartime.

I understand that the National Defense Act now provides for a war planning board, but I believe that it would be desirable that that be specifically mentioned in this act, since it does purport to set up a plan for advance preparations in the event of a future war.

Let me say, on the whole, gentlemen, that we are in favor of the principles of this bill; that we do not wish to make any criticism of it; but at the same time believe that this committee and that Congress should take advantage of the very detailed studies which have been made preliminary to the preparation of H. R. 4202, since it had been considered by the entire seventy-fourth session of Congress. Whether that be done through amendment of this bill or through adoption of another bill, we are not at all particular.

I thank you for this opportunity of stating our position concerning this bill.

The CHAIRMAN. Thank you, Mr. Rice. Perhaps some members of the committee would care to ask you questions.

Mr. ARENDS. I was interested in what you said about the bill being introduced to pay pensions in future wars. Was that done with the thought in mind that that would be a fair thing to do, or was it done with the thought in mind that it would lend further assistance in future wars?

Mr. RICE. Both, sir; that the young men in future wars will be accorded the same benefits and protection that we accorded the veterans of the last war, and because such advance assurance to them would tend to make them more willing, enthusiastic, and efficient defenders of the Nation in the event of unwanted future war.

Mr. ARENDS. That is merely a statement of fairness, in your opinion?

Mr. RICE. And also in the event that we should ever get into a future war that the youth of our Nation would be apt to be more enthusiastic in coming to the defense of the country.

Mr. ARENDS. And also bring to the people's minds the matter of the cost of another war, which would have some effect on them?

Mr. RICE. They should be made to pay for the cost of war, and its profits and burdens should be equalized in all respects, as well from the human as from the property and material standpoint. We consider it a cardinal factor in being prepared for war as well as equalizing the burdens and profits of war. May I insert at this point an outline statement of the policies and objectives of the Veterans of Foreign Wars relating to this question?

Mr. ARENDS. That is all.

The CHAIRMAN. Mr. Rice, we are very, very much obliged to you.

(The statement prepared by Millard W. Rice, national legislative representative, Veterans of Foreign Wars of the United States, is as follows:)

POINT 5. A "PEACE FOR AMERICA" PROGRAM, BY TAKING THE PROFIT OUT OF WAR AND WAR PREPARATION BY GOVERNMENT CONTROL OF MUNITIONS, BY STRICT NEUTRALITY WITH NO FOREIGN ENTANGLEMENTS, AND BY A MORE EFFECTIVE NATIONAL DEFENSE

A. PREPARATION AGAINST WAR

1. Equalization, insofar as possible, of the profits and burdens resulting from war, preparation for war, and from the aftermath of war by (a) present adoption of detailed plan for the effective mobilization of men and money, labor, and industry in the event of war.

(b) Such graduated taxes during and following war as will recapture all extra profits therefrom and as will pay for the cost thereof.

(c) Limitation of profit from sales of supplies or services for military preparations during peacetime.

(d) Rigid governmental control and supervision of manufacture and sales of all munitions.

(e) An adequate preparedness against war, and for war, so as to reduce human cost of unpreparedness.

(f) Adequate present provisions for those who die, or are disabled, in or by future service in our armed forces, and for their dependents.

(g) Punishment for espionage during peace just as in war.

(h) No cancelation or reduction of the war debts of other countries to this country.

2. Strict neutrality: (a) Opposition against any foreign treaty alliances or agreements with any other country or countries—World Court, League of

Nations—which might commit, or endanger the neutrality of, our country in time of war.

(b) No extension of credit or loans by this country or its citizens to any country or its citizens at war.

(c) Mandatory embargo against shipment of any war munitions from this country to any country at war.

(d) Withdrawal of armed protection to American citizens, after expiration of period of warning, during their continued travel or residence in a war zone, either on the high seas or in any country at war.

(e) Shipment of merchandise to a nation at war or into a war zone to be at the risk of the shipper without any protection or the assumption of any other responsibility by the United States Government.

(f) Prohibit travel of American citizens on the ships of any nation at war.

(g) Continue provisions of the Johnson Act.

(h) Refusal to enter into any armed conflict with another nation to protect or promote the profits or sources of profits, outside of the United States or its Territorial possessions, of individual American citizens or corporations.

(i) Making it a punishable crime maliciously to disseminate false information with intent to inflame our country to declare war against another nation.

B. AN ADEQUATE NATIONAL DEFENSE

1. United States Army: (a) 18,000 officers and 280,240 enlisted men in the Regular Establishment, a National Guard of 423,000 officers and men, as provided for in the National Defense Act of 1922, to be attained in 5 years.

(b) One hundred and twenty thousand officers of the Organized Reserves within a 3-year period.

(c) Complete mechanization of all branches of the Army and National Guard within a 2-year period.

(d) Complete motorization of all trains for more than half of the Artillery and for all transportation facilities for the various branches of the Army within 2 years.

(e) Modernization of field artillery, of adequate antiaircraft artillery, of all necessary seacoast defenses, complete complements of both light and heavy machine guns, and complete equipment of semiautomatic shoulder rifles for the Regular Army and the National Guard within a period of 2 years.

(f) Such reserves of equipment and ammunition as would be needed during the first 90 days in the event of war to be accumulated within 2 years.

(g) At least 5,000 combat and bombing planes, and the necessary commissioned and enlisted personnel to maintain and to operate them, within a period of 2 years.

(h) Increase in Air Corps Reserves and of National Guard Air Corps to harmonize with the above, with expanded opportunity to eligible young men for Air Corps training to qualify for commissions.

(i) Completion of one well-equipped flying field in each strategic area in the United States and in each of its overseas possessions within the next 2 years.

(j) An annual 2 weeks' training period for at least 30,000 combat Reserve officers and an annual 2 weeks' training period for at least 100,000 members of the citizens military training camps and for such increase in additional Reserve Officers' Training Corps units as may be necessary to insure a Reserve officers strength of at least 120,000 within 3 years.

(k) A well-rounded program of construction of barracks, quarters, storage, and technical facilities, adequate for recommended increased strength of the Regular Army, National Guard, and Organized Reserves to be completed in time to meet such expanded needs.

(l) New National Guard armory in the District of Columbia.

(m) Construction of a national defense highway along our coast and borders where needed, to be called the Peace Highway.

(n) Military training, similar to that of the Reserve Officers' Training Corps, in our colleges and high schools and the teaching of military discipline to be included in the program of the Civilian Conservation Corps.

2. United States Navy: (a) Continuing program to bring the combatant ships of our Navy to that established by the naval treaties and authorized by the Vinson-Trammell bill.

(b) Maintenance of the fleet in a modernized and efficient status.

(c) A continuing replacement of naval auxiliary tonnage, to provide maximum mobility of, and repair facilities for, our combatant fleet.

(d) Sufficient trained officers and enlisted personnel, to maintain in full commission all vessels of the authorized Navy.

(e) An enlarged United States Marine Corps with sufficient strength for exercising its normal functions.

(f) Adequate training of officers and enlisted men of the Naval and Marine Corps Reserves and for the maintenance of these Reserves at a maximum strength of personnel and material as determined by the Navy Department.

(g) Development of a modernized adequate United States merchant marine, to be manned by American citizens.

(h) At least 4,000 naval aircraft, within a 2-year period, with corresponding expansion of the Naval Air Reserve.

(i) Adequate scientific laboratory facilities for experimentation toward the development of more efficient, effective, and scientific material of all kinds useful for defense or combat purposes.

(j) Development and construction of dirigibles and completion of experiments relative to same.

3. Armed forces personnel: (a) World War veterans to be eligible for active Reserve commissions up to 55 years of age.

(b) Retroactive reenlistment gratuity.

(c) Transportation of dependents of enlisted men of the Naval and Marine Corps Reserves upon transfer to Fleet Naval and Fleet Marine Corps Reserves, to their homes.

(d) Reorganization of Naval Reserve.

(e) Double time for overseas service during World War for retirement purposes.

(f) Liberalized retirement provisions for regulars. (Not less than three-fourths of average pay received during last 10 years prior to time of retirement.)

(g) Longevity pay for warrant officers.

4. Reemphasis of all objectives under points 1, 2, 3, 4, and 5 as a part of and as involved in an adequate national defense.

The CHAIRMAN. Mr. Thomas Kirby, legislative representative of the Disabled American Veterans. We would be happy to hear from you, sir, on this bill, the subject of which is taking the profits out of war.

STATEMENT OF THOMAS KIRBY, NATIONAL LEGISLATIVE CHAIRMAN, DISABLED AMERICAN VETERANS

Mr. KIRBY. Mr. Chairman, for nearly a score of years there have been before successive sessions of Congress various proposals having as their purpose more universal service and prevention of unreasonable profits in the next national emergency. During this long period literally volumes have been published on this subject, so it would appear at present that the task before this Congress is to evaluate all this testimony and bring forth a definite plan covering the principle upon which there is such general agreement.

No cross section of American citizenry has more deep-rooted opposition to armed conflict than those who today are physically or mentally handicapped because of the part they played in the last war. It is in that spirit of detestation for war that the Disabled American Veterans earnestly urge enactment of the principles of the measure now before this committee to prevent profiteering in time of war and to equalize the burden and thus provide for national defense and promote peace.

Based upon all history of all nations, it is to be expected that America is to be called upon again to protect herself, although it is impossible to forecast the time of arrival of the next war. Nevertheless, we submit that ordinary prudence should prompt us to take proper precaution in the calm days of peace rather than endeavoring

to meet the situation in the troubled times when the emergency is actually upon us.

It is to be anticipated there will be obstacles in the course of this legislation through many well-meaning persons as well as professional pacifists to inject a proposal against America entering anything but a "defensive war." Those who propose this term should be compelled to define the term.

In other words, what is a defensive war? Does it mean that the American fleet shall remain without our territorial waters to be shot at without pursuing the enemy? Does it mean that our merchant marine must give up her intercourse with other parts of the world and remain in port? Does it mean that any fleet may approach within range and bombard our seacoast towns? Does it mean that our Army on the borders shall not cross the line even though another enemy may shell our border cities? Does it mean that our air squadrons are merely to continually fly around the limits of continental United States, while heavy air forces penetrate such a thin line and destroy our cities, not only on the coast but well inland?

It is axiomatic that a successful defense must have a threat of offense; but if the catch phrase "defensive war" is to be carried to its literal limits, it is obvious that America would practically be prostrate when threatened by an enemy.

Only the other day a distinguished American, Mr. Bernard M. Baruch, whose activities in 1917 and 1918 constituted a distinct factor in the triumph of our arms, and who during recent years has made a profound study of the whole subject, stood before this committee and expressed sentiments on this subject with which the Disabled American Veterans fully concur.

This former Chairman of the War Industries Board said it was his deliberate opinion that if the enemy and the allied countries had believed in the early stages of the war that we were prepared and ready to fight, this country would never have been drawn into the catastrophe for which we have paid so heavily in losses of manhood and riches.

Indeed, Mr. Baruch properly stated that the economic conditions that for years have borne so heavily on our citizens are traceable directly to the war. In view of these well-established convictions, it seems strange that there should be any further delay in taking the action that would lessen the chances of war and at the same time establish such policies as would leave us prepared when all reason has failed.

The matter of preparedness is so closely interwoven with so-called neutrality that they are almost inseparable. We feel that there would be a distinct lessening of the probability of war if we announced to the entire world that when other countries engage in hostilities we will not lend them money, we will sell them articles they desire and pay for, but we will assume no responsibility for delivery outside of our territorial waters; and, while our citizens may travel on foreign ships, they do so at their own risk once they leave our shores.

This may be considered as our neutrality views, but it is utterly essential that we be prepared to enforce our position. This brings us directly to the purposes of the bill before the committee.

Recognized German authorities have persistently contended that the defeat of the Central Powers was traceable more to the collapse of the home front than the break-down of the actual military front.

To state it differently, these experts blame the retreat directly to demoralization of support within the embattled empire with the weakening of the civilian morale, by privation and starvation.

In distant times armies were sent to the field; today whole nations go to war, meaning that prostration of civilians means military disaster.

It is not necessary at this time to review what we have called, in the absence of a better term, profiteering in this country during war-times. However, if the bill sponsored by the able chairman of this committee is enacted it will mean that this country, for the first time in its history, has taken proper precautions to prevent that which was a potent factor in the defeat of the Central Powers less than 20 years ago.

Upon the declaration of war, such a law as is proposed would set a maximum price on all commodities, with distinct penalties for those who attempted to go beyond these costs in selling either to the Government or civilians; there would be, upon the declaration of war by Congress, a conscription act that would draw into the military service all able-bodied men between the ages of 21 and 31; those engaged in activity necessary to the prosecution of the war would be compelled to register and this registration could be used to force them into the service of the Government as civilians should such authority be needed; all manufacturers, importers, exporters, or producers would be required to operate under licenses controlled by the Government; the President, through agencies created by him, would have power to enforce priority, meaning that orders could be filled at the discretion of the President; any agency necessary could be established and existing agencies could be rearranged to meet the emergency. Any profiteering could be effectively stopped by a tax of 95 percent of all income of individuals and corporations above the previous 3-year average income of such individuals or corporations.

One of the results of such legislation as is now before this committee which has hardly had the consideration it merits is that one of the direct results of such an act would be a marked reduction in the cost of war to this country.

Much time has been devoted to justifiable resentfulness toward unconscionable profiteering from the misery of war. Nevertheless, such profiteering has come because there has been no preventative against excessive profits, for should there be such a prohibition against profiteering by the proposed ceiling in this bill, the difference in cost would be the amount between a small profit of 5 percent and the stupendous percentages of profit that came out of the World War.

There is no living person who is a greater authority on this question than Mr. Baruch and he estimates that one of the results of such legislation would mean a reduction of the financial outlay for any national emergency at from 40 to 50 percent.

Even if there were no other consideration in connection with this bill, the fact that it would materially reduce the cost of war to the country would, in itself, justify its passage.

Such a law, in our judgment, would, in fact, mean a national mobilization to meet any need that war might force upon us, whether it be manpower, industry, labor, or money, but, at the same time,

provide adequate protection for those who, through no fault of their own, could not be in the military or naval service.

In attempting to forecast conditions as they may be found at the uncertain time of the next war, it is manifestly impossible to work out the details to meet every angle of this situation that might develop.

Nevertheless, we are deeply convinced that such a law will go far in the definite establishment of the principle, in fact and in theory, in time of war, that every individual in the Nation has a definite part to play and in playing that part each one makes a definite contribution to the strength of those who must bear the brunt of battle on the firing line or in hostile waters.

The CHAIRMAN. Any questions, gentlemen?

Mr. SMITH. Just one question. In the bill proposed in the Senate in place of putting a ceiling on prices they would provide for the setting of maximum, minimum, or absolute price limits on commodities and articles. Did you go into the question as to which of those provisions would be the more desirable at all?

Mr. KIRBY. We feel that there naturally must be more or less elasticity about it. There has got to be a give and take. In a general answer to the Senate bill, it would be our judgment that there should be set up in the Treasury Department a division or section, individual or a group, having a position comparable to the War Planning Board of the War Department, so that when the emergency arises, the Treasury is in a position to say, "As of this date this is the fact", just exactly like the industrial preparation of the War Department tells you where to go to get clothes, automobile parts, or anything else.

In other words, the Treasury has a very, very definite part and should have a war preparation board of some sort.

The CHAIRMAN. If there are no further questions of Mr. Kirby, we are very much obliged to you. Thank you very, very much.

Colonel Wattles, national secretary of the Reserve Officers' Association, is with us this morning. Colonel, we would be very happy to hear you on H. R. 1954.

Colonel WATTLES. Thank you very much.

STATEMENT OF LT. COL. WM. P. WATTLES, NATIONAL SECRETARY, RESERVE OFFICERS' ASSOCIATION OF THE UNITED STATES

Colonel WATTLES. Mr. Chairman and members of the committee, in the first place, I want to say that our national president, Lieutenant Colonel Engler of the Reserve Officers' Association is very sorry that he is unable to be here at this hearing, and wishes to express through me the appreciation of the association for this opportunity to appear before the committee and make a statement.

In reference to the hearings of the committee on this bill (H. R. 1954) to prevent profiteering in time of war, we, as an association, are in entire sympathy with legislation along these lines. A few weeks ago I had the opportunity to sit in with a group of some of the ex-service organizations when they were considering various phases of the whole national-defense program, so this gave me an opportunity to become somewhat familiar with the details of this bill.

I might add that so far as our association is concerned, its general attitude can be summed up, I believe, in the words of a very short paragraph of article 2 of the constitution of our association, and that is:

That the object of the association shall be to support and assist in the development and execution of a military program for the United States which will provide adequate national defense.

Now, in our group of the Organized Reserves we have about 96,000 officers. They are all of them trying to prepare themselves in any way possible, through various forms of active and inactive duty training, in order that they may be in a position to meet the demands which we know will be put upon us in time of any emergency, not only in connection with our own units—that is, the Organized Reserves—but in augmenting the Regular Army units, both the active and the reserve units of the Army.

We believe very definitely that trained personnel, in themselves, is not sufficient. The physical means of carrying on a modern war are equal, if not of greater importance, and there should be no lagging behind in this phase of preparation.

For this reason we heartily endorse a program which will facilitate the accomplishment of this program, and we feel that the bill under consideration provides for this.

Our association has not had an opportunity completely to study the details of this bill, and that is not true through any lack of interest or any indifference on our part, but it is simply that we feel, as one of the largest groups of civilian officers, that our main objective is national defense from the military point of view, and we make most of our efforts along those lines.

We work as closely as possible with the other service organizations who are interested in some of the refinements and details of national defense, but we strive as an association to keep pretty definitely to our main objective and not get off on too many tangents, namely, the idea of national defense from the military point of view.

However, we do feel that this bill and the provisions in it—although, as I say, we have not had the opportunity to study it in all its details—does facilitate the idea of national defense from an all-rounded point of view, from the personnel, from the materials, and from the financial view.

Under those considerations, we very definitely endorse the general principle of this bill before your committee.

The CHAIRMAN. Thank you, Colonel. Are there any questions which the members would like to ask the colonel? If not, Colonel, we are very much obliged to you.

Mr. Clerk, we were to have Mr. Arthur J. Lovell, legislative representative, present. Have you heard from him? I know he has been sick with the flu.

The CLERK. I was unable to reach him yesterday afternoon.

The CHAIRMAN. There is no one else here at the present time, is there?

The CLERK. No, sir.

The CHAIRMAN. The committee will go into executive session.

Mr. TAYLOR. Mr. Chairman, before the committee completes its hearings on this particular bill, may I say at this time that I have gone over the suggestions made by Colonel Harris of the War

Department, in the form of amendments to H. R. 1954, and I wish to state that, speaking for the American Legion, we endorse all of them. We approve of all of them. Thank you very much.

The CHAIRMAN. Any questions which any member would like to Mr. Taylor?

(At this point the committee went in executive session.)

TAKING THE PROFITS OUT OF WAR

TUESDAY, FEBRUARY 23, 1937

HOUSE OF REPRESENTATIVES,
COMMITTEE ON MILITARY AFFAIRS,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Lister Hill (chairman) presiding.

The CHAIRMAN. The committee will kindly come to order.

We have with us, gentlemen, this morning Mr. William C. Hushing, whom I am sure most of you know. He is the national legislative representative of the American Federation of Labor. We had the pleasure of having Mr. Hushing with us at the last session of Congress on this bill to take the profits out of war. He made a very interesting statement at that time and we are delighted to hear from him this morning.

STATEMENT OF WILLIAM C. HUSHING, NATIONAL LEGISLATIVE REPRESENTATIVE OF THE AMERICAN FEDERATION OF LABOR, WASHINGTON, D. C.

Mr. HUSHING. Mr. Chairman, as you have stated, I appeared during the last session of Congress and I think it might be well if I referred to the hearings on H. R. 3 and H. R. 5293. I put in the record of those hearings a very comprehensive digest of the attitude of the Federation of Labor. It covered over 100 pages, and showed our attitude toward this legislation over a period of years.

I also inserted similar testimony in the Senate, on Senate Resolution 206, in the last session.

It is my intent, after having referred to these previous hearings, inasmuch as our attitude is unchanged, not to go into as great detail here today. It is my understanding that H. R. 1954 is the bill under consideration.

We have been apprehensive as to what might result from the enactment of such legislation. We are in thorough accord with the principle sought, but like some of the other legislation that is oft-times proposed, we are worried as to how it may be enforced.

For example, there was a special committee in the last session of Congress, headed by Mr. McCormack, which brought in legislation or proposed legislation against those engaged in subversive activities against our Government. Now, we were in accord with the principle the committee had in mind, but we were fearful that the enactment of such legislation might result rather disastrously to us, due to the fact that previous experience with laws enacted by the Congress has shown that it has resulted in a detrimental way so far as our organizations are concerned for the reason that the courts do not always

keep in mind the idea Congress had in mind when they apply such laws.

I notice in this bill, on the first page, that it refers to Congress declaring war, or the existence of an emergency due to the imminence of war. On the next page it refers in a different manner to a national emergency, not necessarily caused by war.

I want to be entirely frank with the committee in saying to them that we are not apprehensive about the present Congress declaring a national emergency, whether it is on account of war or otherwise, but I did note the difference in the wording there and I wondered why.

Then it seems that in section 3 there is language to the effect that the unorganized militia between certain ages, 21 and 31, may be drafted into the military service.

I went into the details of such procedure at the last hearing and I think at that time I pointed out the difficulty some of the European nations ran into during the World War on account of adopting that policy. They injected mechanics into their services without exemptions, and when it became necessary to recall them for the purpose of manufacturing certain munitions, it took, in some instances, a period of months to discover what portion of the service they were in; to locate them and send them back and put them into industry.

Now, we cooperated very closely with the Government during the World War. Our international and national organizations know the location of every one of their members. In case it is necessary, for example, to have 100 or 1,000 boilermakers immediately, we can send them, because we know where they are. We can send them immediately. It seems to us that that should be considered in drafting such legislation as this.

I note that in the original bill there is a clause in section 3 which reads as follows:

Provided, That nothing in this section shall be construed as conscription of those employed in industry.

It is left out of section 3 of the bill introduced January 6.

I do not wish the committee to get the impression that we are objecting to doing our share in any national emergency such as a war, but I am pointing out the desirability of protecting the Government itself in the manner suggested by me which is, of course, the stand of the federation.

In section 4 of the bill, the President is authorized to require the registration of all or of any class of persons engaged in the management or control of any industrial or manufacturing establishment.

Of course, I do not suppose that that could be applied or would be applied to the ordinary workman in industry, unless it should be for the supervisory forces, and there might be some objection from that viewpoint.

As to the freezing of prices and profits, we are not certain whether that can be done in a practical way.

I notice in section 6, whoever drafted this proposed legislation, evidently had that point in mind when they say that after prices have been set, they can be reviewed—I am not quoting the bill exactly, but that is what it means—and a proper compensation determined, and so on and so forth.

I can see that whoever would be administering this law would have his hands full on account of the protests that would come to Congress because of dissatisfaction.

I believe that is all that I have to say, Mr. Chairman, except again to point out, as I have at several previous hearings, that the commander of the American Legion has admitted on several occasions that you cannot draft wealth and property and therefore that leaves only the drafting of the worker either into industry or into the Military Establishment.

Naturally, we object to the drafting of our people into industry for the reasons I have just stated.

The CHAIRMAN. Mr. Hushing, of course you realize that so far as the intent and purpose of the bill are concerned, there is no intent or purpose to draft the worker into industry.

Mr. HUSHING. That may be the intent but, as I said at the beginning of my testimony, the courts, or whoever enforces the law, do not always follow the intent. I believe all members of the committee will agree with that statement. Such has been our experience on numerous occasions.

The CHAIRMAN. Mr. Hushing, as I gather your position, you are in accord with the idea—

Mr. HUSHING. Exactly.

The CHAIRMAN. Of doing anything we can to take the profits out of war?

Mr. HUSHING. That is right.

The CHAIRMAN. You are in full accord with that?

Mr. HUSHING. Yes.

The CHAIRMAN. But in doing that, you want to be careful that nothing is written into the law, that nothing is done by the Congress that might be interpreted or construed to permit the drafting of labor in industry?

Mr. HUSHING. That is right.

The CHAIRMAN. Or to do anything of that sort?

Mr. HUSHING. That is right.

The CHAIRMAN. Is that correct?

Mr. HUSHING. That is correct.

The CHAIRMAN. That really is the gist of your position?

Mr. HUSHING. That is it. And, in addition, I point out that it would be more beneficial to the Government if mechanics, certain high-grade mechanics, are not drafted into the Military Establishment.

The CHAIRMAN. In other words, if you had a man working in an ordnance plant who knew how to do some very technical and important and delicate job there, it would be a very foolish thing to take him out of that job?

Mr. HUSHING. That is it.

The CHAIRMAN. In order to put a rifle in his hands?

Mr. HUSHING. That is it. At the time of the war I happened to be employed on the Panama Canal. We were exempted from the draft, and despite the fact that we were exempted, 10 percent of our fellows enlisted, over the objection of the superintendent who was a commandant in the Navy, Commander Gatewood. He even threatened to put on our personnel files "objection to Government reemployment." But we took that up with the commanding general and

he had that taken care of. So 10 percent of our fellows actually enlisted and served, although exempted.

In my own trade, we had five men on the Canal. They wanted 30 but they could not get them allotted to the Canal; they were too far away. We did the best we could.

The CHAIRMAN. What was your trade, Mr. Hushing?

Mr. HUSHING. Pattern maker. During the wartime all of our members in the central part of the United States were called in and sent to either one of the two coasts to work in shipyards and navy yards. Of course, the alternative, I suppose, would have been to enter the service.

But they were glad to do their share and I, myself, endeavored to enlist, but the superintendent did talk me out of it.

Mr. ANDREWS. I would like to ask one question, Mr. Chairman. As I understand it, you have been discussing the labor feature of this bill as labor would be affected by the draft for military service; is not that correct?

Mr. HUSHING. Yes.

Mr. ANDREWS. There is another labor feature of the bill which I have been particularly interested in. We will all admit the idea back of this bill is one which we would like to attain. I am under the impression that it can only be attained through an ideal set-up, and an ideal set-up is one which usually you are not able to attain.

Mr. HUSHING. That is true.

Mr. ANDREWS. I do not think there is any great secret about the fact that there is opposition to conscription of labor other than for military service; is not that correct?

Mr. HUSHING. That is correct.

Mr. ANDREWS. Human nature would run against the attainment if the ideal of this bill, would it not?

Mr. HUSHING. That is right.

Mr. ANDREWS. I asked Mr. Baruch—and I think you will agree with me—whether to attain the object of this bill you would not have to go to a completely idealistic end; you would have to conscript every single person in the country.

Mr. HUSHING. I should think so. I pointed out, I believe it was during the testimony taken at the last session, that if mechanics were conscripted and put into industry, they would not render the same sort of service that they would render otherwise, if they were more or less free agents.

Mr. ANDREWS. I would like to ask you a question at this point, the same question I asked Mr. Baruch.

Getting back to the question of conscription or control of labor other than in the military service, suppose there is a bakery making bread and there are 10 men working for 50 cents an hour in that bakery, and there is a munitions plant near by making fuze caps, whose men are paid for that specialized kind of work \$1.25 an hour. Now, there being a labor shortage due to conscription for military purposes, some of the men working in that bakery may say, "What is the use of our working here for 50 cents an hour; they need men over in the fuze-cap place. Let us go over there and work for \$1.25 an hour."

I do not see any way by which you could prevent those men from doing that, do you?

Mr. HUSHING. No. I think that during the last war we got along exceptionally well. We had these boards which took care of any controversies between employers and employees, and their rulings were final.

In the beginning, Mr. Gompers, who was the president of the American Federation of Labor, made an agreement with Secretary of War Baker that there would be no strikes during the duration of the war.

Now, these boards were appointed, and when some question came up, such as those I have mentioned, it was referred to these boards, and usually an adjustment was made retroactive; but there was no cessation of work.

So that I believe anyone who is familiar with the manner in which such matters were handled during the war will agree that it worked out very well and there was no criticism directed at labor.

Mr. ANDREWS. That is all.

Mr. HARTER. Mr. Hushing, granting that it is pretty difficult to reach the millennium in legislation of this kind, let me call your attention to the language in section 3, to which you seem to object; that is the drafting into the military service of the United States such members of the unorganized militia between the ages of 21 and 31 as he, the President, may deem necessary, subject to such conditions, exemptions, rules and regulations as the President may prescribe and publicly proclaim.

Of course, that takes in those men between the ages of 21 and 31 only. You would have in industry many skilled mechanics who were outside of those age limits, would you not?

Mr. HUSHING. That is true.

Mr. HARTER. And also subject to the exemptions that the President might impose. He could very readily impose exemptions to take care of the class of mechanics that you need in the skilled crafts to carry on the industry of the war.

Mr. HUSHING. That is true, but you know as well as I how these exemptions would be handled by the President. The originators of this bill probably would have a lot to say as to who should be exempted, and he would follow their recommendations.

The CHAIRMAN. Will the gentleman yield there?

Mr. HARTER. Yes.

The CHAIRMAN. Is not that just exactly what was done by the Selective Draft Act during the World War?

Mr. HUSHING. Yes.

The CHAIRMAN. How else could you do it? You could not write into the law exemptions?

Mr. HUSHING. No.

The CHAIRMAN. You have got to leave that discretion in somebody.

Mr. HUSHING. This means not only males but females, as I understand it.

Mr. SMITH. I think the definition of a member of the unorganized militia is a male between 18 and 45.

Mr. HUSHING. I do not so understand it.

The CHAIRMAN. I believe the word "militia" would be limited to males.

Mr. HUSHING. It is?

The CHAIRMAN. So I understand it. Of course, you would have to do just exactly what you did during the World War. The exemptions were not written into the law. They were provided for in the regulations issued by Woodrow Wilson as President of the United States; is not that correct?

Mr. HUSHING. I think that is true, yes.

The CHAIRMAN. Of course, he would have in mind just exactly what you have said, that the great objective is to win the war and that one of the worst things that could be done would be to take skilled mechanics, necessary in industry to the winning of the war, and put them into the army.

Please proceed, Mr. Harter; I did not mean to interrupt you.

Mr. HARTER. Mr. Hushing, do you not think it would be very desirable if a ceiling upon prices could be established, during times of emergency due to war, so that we would not have the outlandish prices that were reached during the World War, prices that went sky high, with the attendant profiteering that took place?

Mr. HUSHING. Yes. We are on the short end of that, because we are always miles behind in our wage increases. Labor wages never keep pace with prices as they skyrocket. We never could catch up with them.

The CHAIRMAN. Mr. Baruch made that same statement before this committee.

Mr. HUSHING. That is right.

The CHAIRMAN. That wages never did go up, during the world war, at an equal pace with the increase in prices.

Mr. HUSHING. That is true. You will find an analysis of that made by the United States Department of Labor, in the last testimony that I gave before this committee. I inserted those tables showing how prices went up, the various price indexes, and how wages lagged behind.

Mr. HARTER. I believe you made some statement, Mr. Hushing, that you did not feel that capital and wealth can be conscripted.

Mr. HUSHING. I did say that on several occasions I have heard the commander of the American Legion state that before this committee.

Mr. HARTER. Do you not think that a properly drafted measure, to be a complement to this bill which the committee has before it, which would impose both income taxes and excess-profits taxes, could be written, that would very largely take care of the profits represented in income above normal, that might arise during war periods?

Mr. HUSHING. We understood that at the last session, or at least I understood that that could be handled in that manner, and so stated.

Mr. HARTER. Do you not think that is practicable?

Mr. HUSHING. I believe it is.

Mr. HARTER. That is all.

Mr. FADDIS. Mr. Hushing, of course you realize that the sense and feeling of this committee are that it would be impracticable in case of war to undertake to draft either capital or labor for industrial purposes. The object, of course, in conducting a war, is to conduct it to win.

Mr. HUSHING. That is true.

Mr. FADDIS. And the President of the United States is Commander in Chief of the forces, not only of the military forces in the field in time of war, but also of the industrial forces behind the Army;

because, after all, warfare today is not a matter of the man in the field alone. It is a matter of industrial forces behind that man. It takes three or four men back of the lines in industry to support one man on the front line.

Mr. HUSHING. That is true.

Mr. FADDIS. Therefore, do you not feel that the President, as Commander in Chief, not only of the forces in the field but of the entire Nation, at that time, and all of his advisers, should not be limited any more than absolutely necessary in the conduct of a war; that they have to use their judgment as to the distribution of these men in industry?

Mr. HUSHING. As I said before, the only thing I would be fearful of is who would make the recommendations upon which he would make his exemptions?

Mr. FADDIS. I suppose the men who would be drafted into the Army would be fearful of that also in time of war, would they not?

Mr. HUSHING. Of course. But I do not know about the exemptions that would be recommended by the persons who I understand drafted this bill.

Mr. EDMISTON. Mr. Hushing, you referred to persons who you understood drafted this bill. Who do you understand did draft this bill, Mr. Hushing?

Mr. HUSHING. I understand that a commission from the War Department did. I do not know. I have been told that, but I do not know. I have had plenty of personal experience as a civilian workman under Army officers.

Mr. EDMISTON. That was your experience in the Canal Zone during the World War?

Mr. HUSHING. Yes, sir.

Mr. EDMISTON. I do not think that Army officers can handle civilian workmen; and you agree with me in that?

Mr. HUSHING. They have their difficulties.

Mr. EDMISTON. It usually ends in difficulties?

Mr. HUSHING. Yes.

Mr. EDMISTON. But under this bill, there is nothing that puts Army officers over the civilian people even in case of war.

Mr. HUSHING. No; that is true. But I should think that they would have a finger in the pie, whether they were over them or not.

I suppose, for example, that the Secretary of War consults with the high-ranking Army officers before he goes to a Cabinet meeting. I do not know that this is the procedure, but I assume it is. I suppose he consults with the high-ranking Army officials before he confers in a Cabinet meeting with the President, on questions of major importance. It is quite likely or possible that he would reflect the views of such officers and so express them to the President.

Mr. EDMISTON. I would think that would certainly be true in military matters. I do not think that the Secretary of War in non-military matters would be at a Cabinet meeting, or be paid a great deal of attention.

Mr. HUSHING. I should think, if this bill were law, the President would probably discuss it with his Cabinet before he made exemptions, and so forth; and naturally, if this bill emanated from the War Department, it is quite possible that Army officers would express to the Secretary of War their views.

The CHAIRMAN. Will the gentleman yield there? -

Mr. EDMISTON. Yes, sir.

The CHAIRMAN. Referring to this bill, let me say that this bill is not a War Department bill.

Mr. HUSHING. Well, I did not know.

The CHAIRMAN. Not in any sense whatever. This bill is the product of this committee, having been hammered out through all the years that have elapsed since the World War. This committee started working on this legislation right after the World War. This bill today is, as I say, the product that has been hammered out through all these years.

I think in that connection I ought to say that Mr. McSwain, the late Representative from South Carolina, made a larger contribution to the bill than any other member that has ever been on this committee. But it has been handled through all these years entirely as a nonpartisan measure, and without the War Department, so far as I know, and I think I know the situation. There is not a line or a word in this bill today that has been put in there by the War Department up to this time.

Mr. HUSHING. I understand that they favor the bill, and—

The CHAIRMAN. This bill is strictly the product of this committee—strictly so.

Mr. SCHAEFER. Will the gentleman yield?

The CHAIRMAN. Yes.

Mr. SCHAEFER. Would not the president of the American Federation of Labor have a finger in the pie, in reference to these exemptions, as you stated was the case during the war?

Mr. HUSHING. Yes. We would make our protests, but we would not be as close as a Cabinet officer, of course.

Mr. SCHAEFER. You were pretty close during the last war, were you not, when Mr. Gompers was president of the Federation?

Mr. HUSHING. Yes.

Mr. SCHAEFER. Why should there be any difference in the case of another war?

Mr. HUSHING. Well, there probably would not be; we would probably be just as close.

The CHAIRMAN. Is there anything further, Mr. Edmiston?

Mr. EDMISTON. To my mind, the fixing of prices would benefit the very laboring class you speak of more than any other class in the country, because of the fact, as admitted by the gentleman a few moments ago, wages never keep pace with the skyrocketing prices.

Mr. HUSHING. They never have.

Mr. EDMISTON. I personally know that that is true and was true in the coal-mining industry during the last war.

The CHAIRMAN. Will the gentleman yield right at that point?

Mr. EDMISTON. Coal was sold at \$16 a ton, but miners' wages did not increase in any way in proportion to the increase in the price of coal.

The CHAIRMAN. Not only that; not only have wages not kept pace with increases in prices, but the fact that labor was forced to ask, during the war, for a number of increases, to try to keep up with those prices, caused the condemnation of labor in the minds of many people. Is not that true?

Mr. HUSHING. I think that is true, but those who were fully acquainted with the facts did not condemn labor.

The CHAIRMAN. Those who were fully acquainted with the facts, yes; but lots of people did not stop to think how prices had gone up. But they did read in the paper where labor wanted to increase wages.

Mr. HUSHING. That is true.

The CHAIRMAN. And proceeded to condemn labor for that reason; is not that true?

Mr. HUSHING. That is true, when they made application for necessary increases.

The CHAIRMAN. Yes.

Mr. FADDIS. The very fact that labor did demand an increase in wages, gave the industrialists an excuse to drive prices still higher.

Mr. HUSHING. That is true.

Mr. FADDIS. Because they have nothing in the world to limit them.

Mr. HUSHING. That is true. It sets up an endless chain.

Mr. SHORT. Of course, the wages of the soldier in the trenches did not increase.

Mr. FADDIS. That is true; but that is something that we cannot measure in dollars and cents.

Mr. SMITH. There is just one question I would like to ask, Mr. Chairman. The last time we got this bill out on the floor an amendment was adopted which stated, as I recall it, that the bill was not to be construed to allow the conscription of those engaged in industry. Do you recall that amendment?

Mr. HUSHING. I think I mentioned that. It was in H. R. 2, and provided that "nothing in this section shall be construed as conscripting of those employed in industry."

Mr. SMITH. Of those employed in industry?

Mr. HUSHING. Yes.

Mr. SMITH. By the terms of that provision, there could be no conscription for military service of those employed in industry? In other words, it would exempt all industrial workers from the military draft?

Mr. HUSHING. Yes.

Mr. SMITH. That is not the thing that the Federation wants, as I understand it?

Mr. HUSHING. No. We do not object to our fellows going if they can render better service in the military establishment than they can in the plants.

Mr. SMITH. You want to be treated the same as everybody else; is that it?

Mr. HUSHING. That is it.

Mr. SMITH. But in some cases it would be better for the Government to leave the skilled men in the plants, to give them exemptions?

Mr. HUSHING. We know it would.

Mr. SMITH. But you do not want industrial workers exempted from the service?

Mr. HUSHING. No; we want to bear our share of anything that comes along.

Mr. SMITH. Just as you have done before?

Mr. HUSHING. Yes.

The CHAIRMAN. In other words, you want to play your part to the best interests of the Government?

Mr. HUSHING. Yes.

The CHAIRMAN. If it is to the interest of the Government and the country for one of your men to be in a steel mill or an ordnance shop, you want him there?

Mr. HUSHING. That is it.

The CHAIRMAN. And if it is to the best interest of the Government and the country for that man to be with the Army, you want him there?

Mr. HUSHING. That is the place where he should be.

The CHAIRMAN. Mr. Dorsey—

Mr. DORSEY. I have just one question, Mr. Chairman, on this matter of the exemptions. You feel that these exemptions should be mandatory; in other words, during the World War the experience was that many men were exempted who were vitally needed in some industrial process, some particular line of manufacture, but there were some of those men who refused to take the exemptions and stayed in the Army. There were many cases like that.

You feel in a case where it is important to have them in industry in order to pursue the conduct of the war to a successful conclusion, that they should be forced to accept an exemption from the Army and stay in industry?

Mr. HUSHING. Well, I do not know. That is drawing it down pretty fine. I was one of those who was exempted on account of working on the Canal. I really wanted to go and enter the service. But I was persuaded, as I have stated, by the superintendent, not to go, because I was more valuable where I was. I intended to enlist as a private. But I have not given that phase of the question, as put by you, very much consideration. I should think that if a man's services were vital, he ought to have to go in industry.

Mr. DORSEY. That would practically mean drafting men in industry, would it not?

Mr. HUSHING. Yes, it would. But we cannot conjure up such a situation; we cannot imagine such a situation arising; you would not have many such cases confronting you, in my opinion. I believe the great majority of our people and our workmen in time of war are patriotic enough to want to do the service that would be most beneficial to the Nation, and I think that if a board should say to any mechanic, "It is better for you to be in this plant rendering this service than it is for you to be over there on the firing line with a gun in your hands", practically every one would render that service which they believed would be most beneficial.

That was my attitude. I was considerably younger and abler-bodied at the time of the World War, and I wanted to be in it. I did not want to be exempted. Now when I meet other men who were in the service, I would rather not have to be obliged to say that I was not in the service, although exempted, because I did not want to be obliged to make such explanations. I was young and single and wanted to go. But for the reasons that I have explained, I did not.

The CHAIRMAN. Mr. Wilcox—

Mr. WILCOX. Mr. Chairman, as I view this matter of exemptions, it seems to me that the only possible method of handling it, of handling a matter of that sort, is to leave the matter entirely flexible in the hands of the commander in chief.

It is physically impossible to write into the law a set of exemptions for all people in time of war. The services back of the line are just as important to the winning of the war as the services of men in the trenches. You have got to have food for them, and you have got to have farmers to raise the food. You have got to have munitions, and you have got to have workers to make those munitions. You must have automobiles and you must have men to make them.

But if we exempted everybody engaged in a necessary industry, you would necessarily exempt practically the whole population. So it seems to me you have to leave this matter flexible. If you said that all the people engaged in the business of raising wheat—because bread is so necessary—should be exempt, of course everybody who did not want to go to war would go out and start raising wheat and he would be exempt. We would soon have more wheat farmers than we had any use for.

It seems to me that these matters are matters that have to be left flexible, to be administered by the President as the Commander in Chief of the Army. If he finds that he has more wheat farmers than he has any need for, he can loosen up the exemptions of wheat farmers and take a few of them into the Army. If he finds he has more munitions makers than he needs, he can loosen up the exemption as to them and take some of those men.

It seems to me you cannot write any kind of a law that would be effective unless you make the matter of exemptions flexible in the hands of the Commander in Chief, so that it might be changed from day to day as the war progresses.

We might find it necessary, after we get into the war, to take some men out of the Army and send them back to make munitions or to make automobile parts or something else that the Commander in Chief found to be absolutely necessary. You cannot lay down any ironclad rule.

The purpose of this bill, as I understand, is not a conscription either of capital or labor. It is a bill designed—whether the machinery set up in the bill is sufficient or not is another question—but as I understand the purpose of this bill, it is to fix a price on everything at a fixed date. That would include all manufactured articles, food and wages and everything else. The prices would be fixed as of that day. If a man was getting \$4 a day on that date, \$4 a day would be his wages during the war, and they would not have to go up, because food prices would all be fixed, as well as clothing and everything else, as of the price of that day.

Of course, that may be a visionary thing to try to accomplish. It may be impractical. But I submit that if it can be done, if machinery can be set up, it is an ideal end toward which we ought to strive.

The CHAIRMAN. May I say to the gentleman that the bill does not freeze those prices; it does not make them static. It fixes a ceiling. In other words, they cannot go higher.

Mr. WILCOX. Yes; above which nothing can go.

The CHAIRMAN. That is correct; it could not go beyond that, but it could go lower.

Mr. WILCOX. If you fix the price of meat or the price of bread, things of that sort, you are fixing a ceiling beyond which they cannot go. Therefore, if the worker does not have to stand up against profiteering prices, there is no need for him to try to profiteer as

against the other fellow, because his wages will be fixed also. In other words, if he has an unlimited ceiling, he can go up and make the cost of production higher.

Now, whether this bill is practical is another question, but as I understand it—and if I am wrong in my understanding of the purpose of the legislation, I would like to be set right—but as I understand it, that is the purpose of it, and if so, it certainly seems to me to be an ideal toward which we certainly ought to try to move.

The CHAIRMAN. Not only is that the purpose of it, as the gentleman has expressed it, but what also it seeks to do is the very thing that the Government sought to do after we went into the World War, but which, in many cases, it was too late to do; the thing had already gotten out of hand. It had run amuck, so to speak, and it was impossible to get back on a normal plane.

Mr. WILCOX. Yes.

The CHAIRMAN. In that connection, speaking of exemptions, I would like to ask Mr. Hushing this question, because we are just trying to think this thing through here. Have you any suggestion that you could make as to any better way to handle these exemptions, Mr. Hushing?

Mr. HUSHING. Not at present. There is one thing further that I would like to say in regard to section 2. I was wondering whether under the terms of that section manufacturers could refuse to sell to the Government?

Mr. THOMASON. The Government could confiscate the property. Even if they refused, we could take it if war were on. There would not be any trouble about that.

Mr. WILCOX. Commandeer it?

Mr. THOMASON. Just take it; yes.

Mr. HUSHING. Section 3 says, "That in the event of war or of a national emergency declared by Congress to exist"—

Now, we have a situation at the present time, as you probably know, in the Navy Department, where the steel companies are refusing to furnish steel to the Government under the conditions laid down by the Government. I am wondering what would happen to such a law as the Walsh-Healey Act under the terms of this bill. Of course, it is not for me to question the committee, but I just want to leave that thought with you.

The CHAIRMAN. Mr. Clason—

Mr. CLASON. Do I understand that the American Federation of Labor feels that a bill of this type should not be passed at all prior to a war?

Mr. HUSHING. Well, we do not like all of the phraseology in the bill.

Mr. CLASON. You feel that a law of this type should be passed prior to a war, do you?

Mr. HUSHING. Yes; if at all. We want to take profiteering out of war, if we possibly can, because we suffered, our people suffered, during the last war on account of profiteering.

Mr. CLASON. I may be wrong, but in my opinion labor is going to get the worst of this bill, because manufacturers can keep on manufacturing, even though you take 95 percent of their excess profits. But on the question of wages, no wage earner can get more than 5 percent of the increase of wages that may be granted him during the war under section 9. In other words, if you are getting \$20 a

week for a certain type of work, if you go up to \$40 a week, you would only get 50 cents more wages.

Mr. FADDIS. That is not so under the terms of the bill.

Mr. CLASON. Why not? Under section 9 it says that there is a tax imposed of 95 percent.

Mr. FADDIS. That does not apply to wage rates. The manufacturers are taxed that above a certain average.

Mr. CLASON. But the Government is going to tax the worker on his income. The wage earner, if he comes within the scope of the income-tax brackets, has to pay 95 percent tax above a certain average.

Mr. SCHAEFER. It has been specifically stated several times that it is not the intention that that section should include the individual worker. That has been made clear at several of our meetings.

The CHAIRMAN. I thought it was pretty well understood by all of us that that section—it has been suggested by a number of witnesses, and I thought pretty well understood—that section has got to be reworded, rewritten.

Mr. THOMASON. Even so, the 95 percent, as I understood it, was only on the increase.

The CHAIRMAN. That is right.

Mr. THOMASON. That is on the increase of profits of industry, or, if you took wages, based on an average over the previous 3 years.

Mr. CLASON. That is what I am saying.

Mr. THOMASON. The only income tax he would have to pay would be on that increase in income.

Mr. FADDIS. It is not figured on the increase in prices that he gets, but increase in the volume of the business and profits.

Mr. DORSEY. Mr. Chairman, under the section as it reads now, no doubt it would be construed as all income. Looking at it from the labor angle, if a man is not a skilled mechanic and he is taken into a job requiring skill and is trained in it, you may have working beside him a skilled worker who has been working at that same job at a wage commensurate with his ability. Now you bring an unskilled man in and train him and he becomes skilled in that operation during the war. The skilled man is not taxed on the same basis as the unskilled man who has become skilled, because he has been getting that salary all the time. The man who has become skilled in that line of work suffers a tax of 95 percent above his previous average earnings. That is a discrimination against the man who has been transferred from one job to another. It seems to me that it has to be rewritten.

The CHAIRMAN. Let me make a suggestion to the gentleman that when we get ready to rewrite that section, as we have all agreed that we are going to do, we bear that in mind, so that we can take care of that very situation.

Mr. HUSHING. That was my understanding, that this was not intended to apply to the workman, this section.

The CHAIRMAN. That was my thought, too. It may be, as the language is now, it would be so construed. But that was not the intent.

Mr. HUSHING. I understood that there was some criticism of the section due to the fact that business might be in the slump for 3 years prior.

The CHAIRMAN. Yes; that is right.

Mr. HUSHING. If this provision, as it is written, were to apply to labor, if a workman had been working, say, but a quarter of his time for the previous 3 years, he would suffer terribly when he went on full time during the war.

Mr. ANDERSON. Mr. Hushing, do you think the Government should apply first the method of enlisting men and after they get all enlistments that they can get, then take up the method of conscription? Do you think this is a better law?

Mr. HUSHING. I do not know. It seems to me that the last method that was used was a good one; it got immediate results under General Johnson.

Mr. ANDERSON. Have you read section 4?

Mr. HUSHING. Yes.

Mr. ANDERSON. Have you any objection to that?

Mr. HUSHING. I mentioned that in the course of my testimony. I said it might, of course, be applied to supervisory forces.

Mr. ANDERSON. You favor striking out the word "emergency" in section 4, and have it read "for the period of the war"?

Mr. HUSHING. Yes. But, as I said before, I have a great deal of faith—and I do not say this by way of flattery merely—I have a great deal of faith in Congress. I do not think they would declare a national emergency unless there were reason for it.

The CHAIRMAN. Gentlemen, if there are no further questions, we will excuse Mr. Hushing.

We want to thank you very much, Mr. Hushing. It has been a pleasure to have you with us.

Mr. HUSHING. Thank you, gentlemen.

The CHAIRMAN. Gentlemen, we have with us Mr. Arthur J. Lovell, who is the vice president and national legislative representative, Brotherhood of Locomotive Firemen and Enginemen.

We will be very happy to have a statement from you, Mr. Lovell.

STATEMENT OF ARTHUR J. LOVELL, VICE PRESIDENT AND NATIONAL LEGISLATIVE REPRESENTATIVE, BROTHERHOOD OF LOCOMOTIVE FIREMEN AND ENGINEMEN, WASHINGTON, D. C.

Mr. LOVELL. Mr. Chairman and gentlemen of the committee, I am pleased to have the privilege of being here. I have had the honor of appearing before this committee for approximately 15 years. There have been many changes in the faces in that time.

The bill that we have before us is not entirely different from similar bills that have been before this committee in other sessions of Congress.

I appeared in the last session on a very similar bill when your former distinguished chairman of this committee, my dear friend, Congressman McSwain, was presiding. And many years ago, when he was one of the members of the committee and former Congressman Quin, of Mississippi (now in Heaven), and when Col. John Speaks was a member, and others; certain bills that were sponsored by former Congressman Johnson, as I recall, to take the profits out of war or to draft capital as well as labor.

So far as the organization that I have the honor to represent, and the 21 standard railroad labor organizations, we are intensely prac-

tical. In other words, regardless of all the beautiful fine-spun theories, our work is such that we have to be practical.

We carried all the passengers on all the railroads in these United States in the year 1935 without loss of life to a single passenger, which means that we are practical day and night, Sunday and Monday, rain or shine; we go through and we take care of the traveling public.

We are in sympathy with the motives proposed in this legislation. But it is the means, the method—how you are going to approach it.

When I appeared before this committee last year I stated, as well as I recall, that I have absolute confidence in Congress, in the House and in the Senate, and in the members of this committee. I pointed out then, and I will point out again, that this bill has in it the possibility of doing more than I think you intend to do.

Personally, I am never enthused about a dictator. They have them in Europe; maybe they are all right, but as a good United States citizen, I do not think that I or the organizations I have the honor to represent want them. And there is the possibility of setting up in this country a dictator in the person of the President of the United States. And when I say that I yield to no man in the respect that I have for President Roosevelt. But I do not think we want to make a dictator out of President Roosevelt, or any other President.

You say you are going to take the profits out of war by this proposed legislation. That is a fine altruistic motive. We all got fed up with profiteers and the cost-plus system and all the rest of it in the last war. But I think we did the best we could through our Council of National Defense. I think that Europe maybe did the best they could to eliminate them, but out of it all, leading up to and during the last World War, we made more millionaires and multi-millionaires than all the rest of the world put together.

It seems to me that in this particular bill you fall short. You say in section 3, I believe, when a national emergency exists; in the event of war or a national emergency declared by Congress to exist: Now what is a national emergency? Was the recent flood in the Ohio and Mississippi Valleys a national emergency? I will bet you that the folks down there thought it was, but Congress did not declare that it was.

The drought that we had a year ago last summer out West, was that a national emergency? I'll bet you the folks out there thought it was, but it was not declared a national emergency by Congress.

So far as drafting labor, that has always been done. But you have never yet drafted capital, and under the Constitution of the United States I do not know how you can. I doubt if it can be done under the due-process clause—I think it is section 5 of the Constitution.

So that even if you enacted this bill and the Senate enacted it and the President signed it, it would simply be a gesture. It would not accomplish the purpose you desire.

I am not a lawyer, and maybe I am as wrong as a nonexpert trying to give an expert opinion. I do not want to do that.

There is not a word in the bill about conscripting wealth. It says something about conscripting labor and about a lot of other things, but there is not a word that I find in the bill anywhere about conscripting wealth.

As far as the railroad employees are concerned, you know that during the last World War the railroads were taken over by the Government and operated under Federal control. All of us worked that way, to say nothing of the thousands of our men who went overseas and manned the trains on the railroads in Europe, or who were in the ranks. And we are ready to do that again if the necessity comes, and it probably will.

There is another place where your bill falls short. You say when war comes. Are you going to be there soon enough with this bill to catch it?

If you read the newspapers you have noticed the reports during the last week of copper going up, I think, 2 cents a pound. It went to 15.35—is that right? Other metals that are prime factors in war munitions also went up equally with copper last week. You gentlemen know that steel went up, from 3 years ago, when it was about \$2 or \$3 a ton for steel scrap to \$21, and 2 or 3 weeks ago it went to \$23 a ton for scrap steel. You know who is buying it and you know what it is going to be used for. It is merely a question of time.

Undoubtedly you are well advised to have a bill like this before this committee. But it seems to me, gentlemen, that a good deal of consideration should be given to it. I doubt seriously whether any act of your committee or any act of Congress, except by way of a constitutional amendment, will accomplish what you desire.

Gentlemen, I have tried to cover briefly all the points I had in mind for the 21 standard labor railroad organizations that I represent; first, for my own organization and also the others. One of my colleagues, Mr. Farquharson, is present. If I have failed to cover the points that I should cover, I would be glad if you would give Mr. Farquharson some brief time.

If there are any questions, I shall be glad to try to answer them.

The CHAIRMAN. Mr. Lovell, with reference to the last point that you made, I call your attention to lines 3 and 4, page 1, section 1 [reading]:

Mr. LOVELL. That whenever Congress shall declare war or the existence of an emergency due to the imminence of war, * * *

The CHAIRMAN. The language, "the existence of an emergency due to the imminence of war", would not that cover the very thought that you have expressed here? If war is coming and prices begin to go sky high, if we just wait until after war is declared, then the horse is out of the stable and it does not do any good to lock it.

Mr. LOVELL. That is right; there is no doubt about it, Mr. Chairman. I think we are facing one, just as surely and as inevitably as ever before. I said that a year ago. I think we are nearer to it. I stated then that we might be as near to it as we were in 1914. We got in the last World War in 1917, something like 3 or 4 years later. It is my personal opinion that just as soon as these countries can get armed we are going to have it, gentlemen.

The CHAIRMAN. Are there any further questions?

Mr. WILCOX. Is it your opinion that the clause to which the chairman just called your attention would be sufficient to avoid that which you have just mentioned; if Congress saw that war was imminent and prices were already beginning to get out of hand, they could declare an emergency due to the imminence of war so as to stop prices from going up? Would that cover the objection that you made?

Mr. LOVELL. I do not know. Who can say? Is the fact that copper went to 15.35 last week sufficient evidence that we are going to have a war within 12 months or 24 months or 4 years? Is the fact that steel scrap has gone up to \$21 or \$23 a ton sufficient evidence to have Congress say that an emergency is present? War is perhaps right at hand. Perhaps we had better get ready. Apparently everybody else is getting ready.

Mr. WILCOX. You have just voiced an opinion and a sentiment that everybody has voiced that has been before the committee; that is, that something ought to be done. We all of us admit that it is a tremendously difficult task. And we say that something of this sort ought to be done. I think we are all agreed on that. Now, if the present bill does not provide the machinery by which to accomplish that purpose, I do not think we ought to become discouraged and throw it in the wastebasket. We ought to try to amend it and enlarge it, extend it, or restrict it as necessity may require. But we are all agreed, I think you agree with us, that the ultimate objective of this proposal is an absolutely necessary one if we are to prevent a repetition of what took place in 1917.

Mr. LOVELL. I agree with you, Mr. Congressman, and as I have said several times, if the bill before the Military Affairs Committee would accomplish what it said, we would be for it; to conscript wealth, and conscript capital as well as labor. But it is simply a gesture, because it will require a constitutional amendment, if I know anything about the constitution and the action of our Supreme Court, to do that; and mere legislation by Congress will not accomplish what you desire.

The CHAIRMAN. Does any other gentleman of the committee desire to ask Mr. Lovell any questions?

Mr. SMITH. There is one question in that regard that I would like to ask.

Do you think it possible under the Constitution as it is to draw a tax law which will reach wealth and will reach any increase in wealth due to war without violating the Fifth Amendment? Do you not think we can do that if we go to work and draw a genuine tax law?

Mr. LOVELL. When are you going to start to apply the tax to the fellow who made that profit last week, that I mentioned? How are you going to catch him? War has not been declared. He will get all of his profit before war is declared. He will get his millions or perhaps billions. What are you going to do with him?

Mr. SMITH. If you cannot reach him, why not reach the ones who can be reached after the war begins, at least?

Mr. LOVELL. Yes; but you do not get the fellows, perhaps, who made the big pile.

Mr. SMITH. I think you get most of them.

Mr. LOVELL. Well, you may; that is problematical. There are a lot of them making millions right now. You gentlemen know now what the stock market is doing on essential war materials, every one of you. You are bright men. You know what is going on. Stocks are skyrocketing, just as much as they did back in 1914 to 1917 and thereafter, aren't they?

Mr. EDMISTON. That tax bill that we passed at the last session is going to take a good portion of it away from them.

Mr. LOVELL. Well, let us hope that it does.

Mr. ANDERSON. Supply and demand cause the increase in price of any commodity, do they not?

Mr. LOVELL. Yes; the actual supply and the actual demand do. But there are ways of manipulating those things. In the past people have got corners on the wheat market. You remember Leiter made millions many years ago in the Chicago wheat pit.

Mr. ANDERSON. Do you not think that the wars that have been raging in Europe, the Italo-Ethiopian contest and the Spanish civil war, have caused a shortage in metals, so that copper, for instance, in this country has had a rise in price? Do you not think that is the cause of the rise in price of copper?

Mr. LOVELL. The people who are buying are not Spain or Ethiopia. The people who have been buying steel and so forth have been Japan and Germany and Italy.

Mr. ANDERSON. Do you not think that we are unduly alarmed about these prices going up?

Mr. LOVELL. We are alarmed, Mr. Congressman?

Mr. ANDERSON. Do you think we are going into war?

Mr. LOVELL. Do I think so personally?

Mr. ANDERSON. Yes.

Mr. LOVELL. We cannot keep out of it.

Mr. ANDERSON. How do you arrive at that conclusion?

Mr. LOVELL. We did not keep out of the last war, and the world has shrunk in size materially since then, by the advance of transportation and communication. It is perhaps utterly impossible for the United States to keep out of a world war, just as utterly impossible as it would have been for one city block in the city of Louisville, Ky., to keep out of the recent flood.

Mr. ANDERSON. Do you not think that we received a pretty good lesson from the last war?

Mr. LOVELL. We certainly did.

Mr. ANDERSON. Do you not think that any man who was in the last war feels that he would not care to indulge in another war?

Mr. LOVELL. That is right. I was a soldier myself many years ago.

Mr. ANDERSON. And you know that there are men in many important posts, a lot of them in Congress, who were in the war in 1918, do you not?

Mr. LOVELL. Yes.

Mr. ANDERSON. You do not think that they are going to vote for war to help anybody else, do you?

Mr. LOVELL. They probably will not. But we will undoubtedly be in the war whether they vote for it or not. It is extremely doubtful that we can keep out of it. It is just as inevitable as that any one city block in the city of Louisville, Ky., could not escape the recent flood in the Ohio Valley.

Mr. ANDERSON. You think, then, that they are preparing to attack this country, is that right?

Mr. LOVELL. Not directly, oh, no. They will probably clean up themselves first, and whatever residue or remainder is left will come over and get us, because I think perhaps we are the best hated Nation in the world. We have 90 percent of all the world's gold, and that is what they want, gentlemen.

Mr. ANDERSON. If they cleaned each other up, there would not be very many of them left.

Mr. LOVELL. Oh, there will be plenty of them left.

Mr. ANDERSON. Do you not know that the ocean on both sides of this country is a great help to us?

Mr. LOVELL. Oh, yes. That used to be a barrier a hundred years ago. It is no longer a barrier.

Mr. ANDERSON. Why is it not a barrier any more?

Mr. LOVELL. Because they can get across in an airplane now in about 10 hours.

Mr. ANDERSON. Where are they going to stop to refuel?

Mr. LOVELL. They do not need to, they will not need to.

Mr. ANDERSON. What are they going to do, run on thin air?

Mr. LOVELL. No; they will get here.

Mr. ANDERSON. That is all.

Mr. DORSEY. Mr. Lovell, during the World War, when were all of these profits made in the United States, during the war or prior to the war?

Mr. LOVELL. Much of it was prior to the war.

Mr. DORSEY. When were all these fortunes accumulated?

Mr. LOVELL. Some of them prior to the war and some of them during the war.

Mr. DORSEY. When was the mass of them accumulated?

Mr. LOVELL. Probably before the war started. In 1914, cotton in the South was 5 cents a pound in the bale. There were ads printed in the public press to buy a bale of cotton. You know what price it went to. The fellow who bought that cotton at 5 cents a pound in the bale cleaned up. He did not need to work or go to war, he got his without such effort or risk.

Mr. DORSEY. What we are trying to drive at in this legislation is this, to limit profiteering in time of war, during a war that we are actually engaged in in this country. If we can keep that end in mind, I think we will get somewhere in the legislation.

Mr. LOVELL. What are you going to do with the fellow who, for instance, from 1914 to 1917, cleaned up millions? The same thing is happening right today, the people that are making it are making it out of copper and all of the other products used in munitions of war, even scrap iron which, as you know, 3 years ago was \$2 or \$3 a ton, and which for the last 3 or 4 months has been as high as \$21 to \$23 a ton. Those are facts, gentlemen.

Mr. FADDIS. Has scrap iron gone to more than a cent a pound?

Mr. LOVELL. Colonel Olsen, general manager of the Alaska Railroad, told us in December that he had sold every bit of scrap on the Alaska Railroad to Japan and they loaded it at Seward, for \$21 a ton; is not that right?

Mr. FARQUHARSON. I do not remember the price, but they did load it at Seward and took it over.

Mr. LOVELL. That is a fact, and you can get that from the records.

Mr. PACE. Do you object to those people making money on that?

Mr. LOVELL. No.

Mr. PACE. I did not quite get the drift of your criticism.

Mr. LOVELL. No; but the bill is designed to take the profits out of war, is that right?

Mr. PACE. That is what I understand.

Mr. LOVELL. It does not do that, because the profits are taken before the war and perhaps during the war. Labor suffers always. The railroad employees whom I have the honor to represent worked just the same, prior to and during the last World War and, just as Mr. Hushing stated, our wages never caught up with prices. We were miles behind and we never have caught up.

Mr. PACE. I did not understand that labor or you or any of us would suffer if some American citizen made a profit out of a sale to Japan or France or Germany or Italy; there would be no one in this country to suffer from such a transaction, would there?

Mr. LOVELL. Maybe not immediately, but this steel scrap and other materials of war bought here might be turned into munitions or airplanes and might come back here and bombard us with them. We would perhaps get it sooner or later.

Mr. PACE. That would be a question of preparation and not the result of a financial transaction?

The CHAIRMAN. Gentleman, it is 12 o'clock.

Mr. Lovell, do you have someone with you whom you would like the committee to hear?

Mr. LOVELL. Yes, Mr. Farquharson is here, and he may have something additional to add.

I am very much obliged to you gentlemen.

STATEMENT OF J. A. FARQUHARSON, NATIONAL LEGISLATIVE REPRESENTATIVE, BROTHERHOOD OF RAILROAD TRAINMEN, WASHINGTON, D. C.

The CHAIRMAN. Mr. Farquharson, is there anything especially you would like to add to Mr. Lovell's statement?

Mr. FARQUHARSON. No; nothing particularly, but I would take only 2 or 3 minutes, if I may.

The CHAIRMAN. Proceed.

Mr. FARQUHARSON. I am very much in sympathy with this type of legislation. If I understand the bill, the purpose is to take the profits out of war and remove that inducement to get into war. That is one of its purposes.

During the World War the men whom I represent, the trainmen of this country, worked for \$3.88 a day, when wages outside were \$10 and \$12 and \$15. Our men really suffered, and their little savings that they had were gone. It was the aftermath of the war that hit us very badly, and I think in legislation of this sort, if we can stop profiteering, we would not suffer as we did in the aftermath of the war in 1918 and 1919. We were still on very low wages, and you remember the strike that followed in 1920 as the result of that.

Labor has never been able to keep up. Prices have soared because industry was unregulated and because there was a shortage of labor, because foreign countries were in the market and buying everything that we had, and when that was over the terrible collapse came.

I want to say this, that as I understand this bill, you would give to the President the authority, if I may use that word, to conscript—perhaps that is too severe a word to use—but to take control of certain industries that we needed in the prosecution of a war.

I am so bitterly opposed to war that I think we ought to regulate as far as possible, because unregulated industry is going to run wild

in such an event because of the shortage of labor, because of the demand created by the waste of war, that ultimately all the protection that we seek to give here would not prevent a price rise.

Referring to section 2, the President would have to try to adjust either upward or downward, and I am quite convinced that it would be necessary to go upward to meet these unregulated industries, or the ones not under control.

I hope that, regardless of what Europe may do, we will not become involved in another world war, and I still have hope that the Congress of the United States is not going to be misled and call upon young men of this Nation to fight for somebody's dollar that was placed in Europe. I have confidence that we will not do that.

I have not any specific suggestion, Mr. Chairman. I am really not competent to offer a suggestion or an amendment to the bill as to how to correct this situation. But you cannot go too far to suit me and the men I represent.

The men in the organization that I represent went overseas and manned the trains. At one time, out of 180,000 members, we had 15,000 over there. The rest of the boys at home paid their dues and kept up their insurance and took care of them. But we do not want to have to do that again. Not that we would not go if war is declared. We will do our part. But we still hope that this committee will be able to work out something that will retard the possibility of our getting into war.

Gentlemen, I thank you, and I wish you all the good luck in the world in the undertaking that you have before you.

The CHAIRMAN. We very much appreciate your statement. Are there any questions?

Mr. DORSEY. I would just like to make one observation. When I came from the war, a certain manufacturer told me directly that he regretted that the war had not lasted 3 months longer, because then he would have accumulated a certain amount of money to leave to his family. That is the thing that we want to stop by this legislation.

Mr. FARQUHARSON. And that is why I wish you all the good luck in the world in your efforts.

The CHAIRMAN. Thank you very much, Mr. Farquharson.

Mr. SCHAEFFER. Mr. Chairman, before Mr. Hushing and Mr. Lovell leave, I was wondering whether they would not submit any suggestions that they may have concerning this legislation in writing?

Mr. HUSHING. I shall be very glad to make an effort to do that.

The CHAIRMAN. Gentlemen, Mr. Boren, of Oklahoma, is present and has a brief statement he would like to make to the committee. We shall be glad to hear him at this time.

STATEMENT OF HON. LYLE H. BOREN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. BOREN. Mr. Chairman and gentlemen, I shall take only 3 or 4 minutes of your time.

In the first place, in response to petitions and resolutions from various peace clubs in my district, I want to present for your consideration a brief statement. These petitions, resolutions, and requests have come to me primarily from the Women's Peace Council; from a committee of the American Legion Auxiliary in my district;

a resolution from five organizations in five towns of the Women's Voters League; and from the Women's International League for Peace and Freedom, which I understand will be represented later in an appearance before this committee.

In response to those requests and petitions, I present for your consideration as a cross-section of public opinion the suggestion that section 3, following line 17 of the present bill, might be amended to read, in addition, as follows [reading]:

Provided, That no member of the militia drafted into the armed forces of the United States under the provisions of this section shall, while a member of such armed forces, be required to serve on foreign soil.

Without any further comment on that much-debated issue, I want to present for your further consideration the only other idea that I find particularly different in this bill from the one that I advanced in the House, Mr. Chairman, and that is that after the conclusion of section 1 we add the following phrase [reading]:

Beginning from the date of the declaration of war the per-diem pay of soldiers shall be a sum equal to the daily wage of unskilled labor as of the date proclaimed by the President for price determination; and the President is hereby authorized and directed to determine and proclaim the amount of that wage.

If you agree to this amendment which in substance fixes the salary of the private soldier in a compensatory way in comparison with that of the day laborer, it would then be necessary to amend, following line 17 of section 3 to read that [reading]:

The per-diem pay of such members of the unorganized militia so drafted shall be a sum not less than the daily wage of unskilled labor as of the date proclaimed for price determination by the President; and the President is hereby authorized and directed to determine and proclaim the amount of that wage.

Those are the only two items that I wish to suggest. The first one is a cross-section of public opinion. The second one is a suggestion on my part as an individual Member, if you see fit, to amend the present bill to fix the per-diem pay of soldiers on a par with the per-diem pay of wage earners, nonskilled labor, at least.

The CHAIRMAN. As I understand your first amendment or your first suggestion it is as the voice of certain organizations in your district rather than as an amendment to the bill out of your own heart, so to speak.

Mr. BOREN. That is correct, Mr. Chairman. I might add, of course, that as an individual I am opposed to engaging in wars on foreign territory. However, I recognize in this suggestion a possibility that it might involve a handicap in the eventuality of an actual war, in the successful manipulation of our troops.

The CHAIRMAN. Some of the gentlemen sitting on this committee come from a section of the country where a great war was fought and I am sure that we are all convinced that if the United States has got to go to war, we would rather fight it on the other fellow's soil than on our own soil. I am sure that that is true so far as Alabama is concerned.

Mr. COSTELLO. In the last war, when our troops began to get over on German soil, Germany quit.

Mr. FADDIS. May I suggest to the gentleman that he accept the ladies' intentions as being very excellent, and ask them to cite any

example where any major conflict was ever won except on the soil of the enemy? It is impossible to win a war anywhere else.

Mr. BOREN. Of course, you gentlemen understand the purpose of this provision and what the real intent is behind this provision. It is offered, as I said, only as a reflection of public opinion and perhaps something may be developed in line with the idea that is behind the motivation of that paragraph.

Mr. FADDIS. They are very well intended, but misguided.

Mr. BOREN. I understand the gentleman's viewpoint.

Mr. FADDIS. I am sure that anybody who ever saw the devastated areas in France will not want to see any war fought on our own soil.

The CHAIRMAN. Of course, that thought might be germane to the consideration of the declaration of war, but it would be impracticable in the use of our troops after we once went into war.

Mr. BOREN. I think that is true, Mr. Chairman.

Mr. SCHAEFER. I would like to ask the gentleman a question with reference to the amendment as to the prevailing wage-rate per diem. Who establishes that rate?

Mr. BOREN. According to the terms of your own bill the President is authorized to determine and to proclaim the wage rate, and so forth, of any individual party, and so forth, as you have it in the bill. I suggest simply to add to that that the per diem pay of the common soldier shall be set at an equality with the per diem pay of the unskilled laborer.

Mr. SCHAEFER. I understand that, but where, in what section of the United States?

Mr. BOREN. I have not seen, reading your bill, any disposition to differentiate between sections of the United States in the fixation of wages anywhere. I will confess to you that I had not given it any thought. As you have aptly pointed out, there might be one wage in one area and another wage in another area.

Mr. SCHAEFER. You have that in your own district. I know that I have in my own district with the W. P. A. prevailing-wage rate. Every town in my entire district has a different wage rate. The city council and the board of supervisors will meet and they will declare that this is the rate, and nobody knows what the prevailing rate is. That is the reason I ask the question.

Mr. BOREN. The gentleman would not go on record, though, as in favor of the differentiation which is made in the W. P. A. wage rates?

Mr. SCHAEFER. No. The point I was trying to make is, Who is going to determine that rate? That is the reason I asked the question.

Mr. BOREN. I will confess to you that the thought had not occurred to me, although in my district that differential in the W. P. A. wage rate does exist. Personally I see no justification for it.

Mr. SMITH. If I may make one observation, if I understand the purpose of the bill, it is not to have the President set a wage that shall be followed, but to set a ceiling for prices and wages; that those may fluctuate as conditions may fluctuate, but that anybody may sell at less than that ceiling price. It is not the setting of a definite price or of a definite wage, but the setting of a limit beyond which they cannot go.

Mr. BOREN. Yes; I understand that; a maximum rate. The point that I think you gentlemen of the committee will understand that I have in mind is that we are faced after every war with claims made

by soldiers who are in the service—perfectly just claims, in my opinion—that their compensation had not been in line with the compensation in private employment. Now, whether or not this exact language would be germane to the intention of the bill, I am not competent to say. But the idea that I have expressed here is that the common soldier should have a compensatory wage in keeping with the wages of labor. I think that is a very important factor to be considered in this legislation.

Mr. DORSEY. Can you compensate a man who goes to war in any way whatsoever? What about the \$3,000-a-year man who goes in as a private? You cannot do anything about him. Are you going to try to fix a wage for him based on the common-labor wage rate? Are you going to have the man who is in the Army pay for his maintenance out of the wage that he gets, in order to put him on the same basis with the common laborer in industry, who must during the period of the war pay his own maintenance? Have you thought of that?

Mr. BOREN. Yes; I have thought of that. Of course, I recognize—and it goes without saying—that you cannot compensate a man for his service; and, as you say, there might be someone drawing \$25,000 a year who enlists as a private. But in your reports and in the debate on the McSwain bill last year—I am sure you gentlemen have read the debates on the McSwain bill, and particularly the amendment which was presented by Congressman—now Senator Lee, from my district. I think perhaps that amendment covers the subject better than I could cover it in the discussion here, and I do not want to take your time now to go into it. I know you gentlemen are anxious to recess.

If there are any other questions that I might perhaps answer at this time, I shall be glad to do so.

Mr. SCHAEFER. May I say that the reason I asked you the question is that I have had a lot of experience with W. P. A. wage rates. I have a city of 80,000 and a city of 40,000 and they have a boundary that is just imaginary. The prevailing rate in one city is 95 cents an hour for common labor and in the other 75 cents an hour.

Mr. BOREN. I have the same situation in my district. I have three counties that are on one wage scale and six counties that are on another. However, I am of the opinion that if justice were done, the unskilled worker in the W. P. A. organization would receive the same wage throughout the United States, regardless of where he lives. I say that after considerable study of the fluctuation of living expenses in various sections of the United States.

Mr. SCHAEFER. That is the reason I asked the specific question, Who would determine that rate?

Mr. BOREN. It would have to be determined by the President; and if he did determine a fluctuating wage rate for unskilled labor in various areas of the United States, then, of course, this amendment would be impracticable. If he did that, I would change the language to read "the maximum rate for unskilled labor anywhere in the United States."

The CHAIRMAN. Is there anything further, Mr. Boren?

Mr. BOREN. Nothing, except I would like you gentlemen to understand the point that I am now driving at: If there is a fluctuating rate for unskilled labor in the United States, I would add in my pro-

posed amendment a phrase to the effect that the President shall fix it at the maximum found anywhere in the United States.

The CHAIRMAN. If that is all, we are very much obliged to you for the statement you have given the committee. We have been delighted to hear you.

Mr. BOREN. I appreciate your courtesy, gentlemen.

The CHAIRMAN. The committee will now adjourn and meet on call.
(Whereupon the committee adjourned, subject to the call of the chairman.)

TAKING THE PROFITS OUT OF WAR

THURSDAY, MARCH 4, 1937

HOUSE OF REPRESENTATIVES,
COMMITTEE ON MILITARY AFFAIRS,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Lester Hill (chairman) presiding.

The committee had under consideration H. R. 1954.

The CHAIRMAN. The committee will please come to order. We will continue our hearing this morning on H. R. 1954, commonly known as the bill to take the profits out of war.

We have with us this morning Dr. Raushenbush, who, I believe, is a professor at New York University.

Mr. RAUSHENBUSH. No, sir; that is not correct. I am afraid you are mixing me up with one of my brothers.

The CHAIRMAN. Are you the more eminent of the two?

Mr. RAUSHENBUSH. No, sir; I am not.

The CHAIRMAN. Let me say that the Women's International League for Peace and Freedom are very much interested in our hearing, Dr. Raushenbush.

Doctor, before you start your testimony with reference to this bill and the general subject, we would be very happy for you to give us, for the benefit of the record, a brief statement about yourself.

STATEMENT OF STEPHEN RAUSHENBUSH

Mr. RAUSHENBUSH. My name is Stephen Raushenbush, of Harrisburg, Pa.; former chairman of the Pennsylvania Security League; former assistant professor at Dartmouth; former chief investigator for the Senate Munitions Committee; former chief investigator for the Pennsylvania Legislative Committee on Utilities; former chief investigator for the Pennsylvania Legislative Committee on Sweatshops; former director of the Bureau of Mediation of the Commonwealth of Pennsylvania.

By the way, Mr. Chairman, I am not a doctor. I was once a professor, but not a doctor.

The CHAIRMAN. Just let me say that I am glad you are here to testify today and not to investigate. Now, will you please proceed in your own way, Mr. Raushenbush?

Mr. RAUSHENBUSH. Mr. Chairman and members of the committee, I am informed that the emergency peace campaign, which all of you know about and which is now conducting a campaign to keep us out of foreign wars, is also in agreement with the feeling that the results of the bill you have approved will probably be very different

than the intent stated in the preamble. It is to that preamble and purposes of the bill that I would like to address myself and to point out that it says:

To prevent profiteering in time of war and to equalize the burdens of war and thus provide for the national defense, and promote peace.

I have had many months of study of these subjects. They worried me as an individual, and I feel that I have some thoughts that might be helpful to the committee.

The first comment is that the probable result of the bill is different from its announced intent and that it really does not act to promote peace, for this reason: The idea that low profits in wartime will throw the weight of our heavy industries—the big industries of the country—against our entry into war may have something in it. But, according to the provision which you have drawn, 95 percent on all new profits—that will still allow these big companies to make even more money than they are making now. Carnegie Steel, for instance, in selling armor plate, make 58-percent profit, or \$203 a ton. As I understand the bill, they would be allowed not only to make normal profit but to make something more on top of it, and to keep 5 percent of whatever new profits they make. And Sperry Gyroscope makes flight indicators for the Army; instead of making 54-percent profit, according to the Army auditors' figures, could make still more. When the du Ponts, in the last 3 years for which figures are available, average 36-percent profit on their powder sales to the Army, and they could make still more under this present bill.

The point is, allowing them to make even more than those high profits is not a discouragement of financial interest in our entry into war at all.

I want to point out another thing that I do not think has received the sufficient attention, and that is that the taxation clause of the bill not only operates unequally between munitions companies, which would be the ones supposedly supplying Germany, Italy, Great Britain, and France in the period before the entry into war, and nonmunitions companies, for they would be getting the benefits before the nonmunitions companies would be getting it. It not only operates to the benefit of the munitions companies and to the detriment of the nonmunitions companies, but it actually encourages a war boom by rewarding those companies which engage in it and penalizes those who do not.

You may have noticed the action of Bausch & Lomb of Rochester, N. Y., Army suppliers and Navy suppliers. They make optical instruments of high quality. They suddenly withdrew from the foreign market. They said they were going to discontinue supplying them for military purposes.

In fact, a war is going on over there now without the benefit of the declaration of war. Bausch & Lomb said: "We do not want to mix up in it. We will continue supplying the Army and the Navy but not the foreign countries."

This idea of a 95 percent tax on new profits actually penalizes a company like that very heavily. I shall illustrate it, if I may. Take two companies of equal capacity, and let us say each has a capacity to make about \$13,000,000 profit. Let us say the first one I was talking about, for instance, the Rochester company, stays out of the present war preparations, the preparations which are going on

for the foreign war, and it averages a profit in the next 3 years, 1937, 1938, and 1939, of \$10,000,000. The other company, the competitor of this optical company, goes into war preparations business in the sense that it sends a lot of material over and gets into this war boom going on. You have probably noticed in the papers how present prosperity in the various industries, automobiles and steel, is due to this war boom in Europe. The second company goes into the war preparations business and supplies England and Germany. Let us say that in 1938 a war is actually declared. Then, in 1940 we get in to prevent interference with our war trade with belligerents, sometimes called "the freedom of the seas." By that time the second company has averaged its capacity, \$13,000,000, and that is all it can make and it has as big a factory as it can have, too. Then we get into the war and other companies cancel their foreign orders. And each of them had a capacity of \$13,000,000. Then 95 percent taxes on new profits come along, and the company that stayed out of the European War is penalized by contrast with the company that has been engaged in that war boom. The company that has engaged in it has been going to capacity, but it pays no tax at all. The other company, which brings its profits from \$10,000,000 up to \$13,000,000 would get \$2,850,000 in taxes. So, in a way, by participating in a war boom the second company has been given insurance against war taxes.

And that happened during the World War. For instance under your tax the Du Pont Co. would not have paid a single cent in taxes to the United States Government because their profits were so high in the years before we got into the war that after we got in the profits were even less. So under your plan they would not have paid a cent of taxes to the United States Government, although after we got in their profits were very great. But they were not greater than in the years prior to that time, during our neutrality.

Now, we come to this situation: Would this 95 percent tax proposed on new profits induce companies to throw their weight against our entry into a foreign war? I do not think it would induce those companies which had been making high war profits to do so because the alternative to high profits in a continued war boom would be a depression. And the other companies, which had not been engaged in the war boom would be financially worse off, and they want whatever benefits of a war trade they can get, and they would prefer to have the 5 percent that you leave them rather than take the alternative position of not having anything. They are tied to the wheels of the companies they had a war boom.

Professor Jessup, of Columbia University, has made the point that the only way you can take the profits out of war is to take the profits out of neutrality.

This encouragement of a war boom is tied in with the problem of peace. As you gentlemen know, a great many of the neutrality proposals before both the House and Senate are based upon the belief when a boom in trade with belligerents starts, once it gets under way, nobody can stop it, not the most idealistic administration in the world and not the most materialistic administration.

Foreign governments throw 5 or 10 million dollars into our economic system, and everything starts getting inflated and com-

panies expand, and everybody wants the trade to go on. It is not only the munitions makers and the bankers but you and I who like to see prosperity in the country. We sort of get into that atmosphere and then it is almost impossible to stop the war trade.

I read with great interest what Senator Pittman said on the floor on Monday. He made practically the same case that the Senate Munitions Committee had made, that regardless of what administration is in, once you let a war boom get started it is almost impossible to insist on our neutrality rights or to remain out of the war.

In the last war the war boom very definitely got in the way of Mr. Bryan's policy of loans, which was to stay out of loans to belligerents. That was very clearly shown. Not only the bankers but governmental officials themselves said that failing to make loans would bring about a depression and said "we cannot afford to have a depression so we will have to change our neutrality policy." It has more serious effects than that. As Senator Pittman pointed out that when President Wilson and Secretary Lansing were trying to get at a settlement of the submarine problem they worked out a good one, but England came along and said, "No; we will not play ball. If you don't like it, we will take our trade away from you." And that meant a depression.

Later when Congress voted into the hands of the President the powers of retaliation against the belligerents the Department of Commerce said "You cannot do it, it would hurt our trade more than theirs."

The war boom once started is a dangerous thing to the country and to our peace, by giving a reward to the companies which engage heavily in the war boom this bill does not help. In a way it put the premium on the continuation of the war boom. Personally, I think it helps make it worse, and we simply get into a war for economic reasons. And if you have that pressure it is a very important one.

Another comment on the bill, it seems to me, from the point of view of peace, is that the announcement in the advance of war or any emergency that we propose to raise a huge Army for service overseas does not come in the class of a peace move. So I take it the draft provision in effect can hardly be considered as a peace move. The National Guard is for the defense against invasion, and the announcement in 1937 of a proposed Army of several million men I think would be understood in the chancelleries of Europe and Asia as meaning that we are getting ready to have an Army for the invasion of foreign countries.

I don't know whether that is your intent, but it seems to me its effect on the peace of the world would be much as if a great nation like Japan or some other great nation announced that it would triple the size of its navy. And it seems to me that that would give the military rulers of some of the Asiatic countries a pretext for increasing their own military forces and would add very little to the peace of the world.

Leaving its effect on peace and talking about equalizing the burdens of war. This is a very thorny subject. Years ago I thought it could be done. I think perhaps I have learned now something more about it. And Colonel Harris, who is in the room, in his testimony before the Senate Munitions Committee, did something to

convince me that so far as trying to equalize the burdens of war is concerned, it really cannot be done, no matter how capably it is attempted. I have read Mr. Baruch's statement to this committee, although I did not read his cross-examination. He said, "You have to remember that this is not a goal; this is an ideal"! And I have the same feeling about it.

It is almost impossible to equalize the burdens of war, because of the very nature of things. Some men go out and get shot, some work in the factories, others manage them, while others clip coupons. I do not feel that this bill moves really in the direction of equalizing those burdens of war.

The four great economic interests that you treat with are treated very differently. Capital, as I have attempted to point out, has a chance to make bigger profits out of business. No restrictions are placed upon costs in the tax section; very large profits can be concealed, it seems to me, by certain methods of padding costs which were used in the last war.

Management, the second large group, is safeguarded from the military draft without at the same time being rendered independent of business control. Some of the Senate bills, Senator Connally's, Senator Clark's, and so on, follow the idea that you can separate management from business control by simply giving them the Government salary and forbidding them to take a private salary, the idea being that they are working entirely for the Government. Leaving aside the merits of that, certainly the section here does not render them independent of business control. They can still receive a million dollars bonus, and since they will go back into private business as soon as the matter is over, it seems to me what they actually get is a wholesale way of getting out of the military draft. They did it in detail the last time. They were too important to die or to be shot dead, they were more valuable where they were. There were a great many attempts to get out of the draft by individuals. So far as anybody's finding equality between classes of citizens is concerned, it is not there. Boys in their shirt sleeves and overalls will be drafted but management automatically will be protected. Probably it would be anyway.

The third group dealt with is very important, as I interpret your bill, although I may be wrong in my interpretation. Labor is not exempted from the provisions of price fixing during "compensation."

Mr. Baruch made special suggestions to you that that should be made very clear by adding that the President has the power to fix wages or to fix service. It seems to me you have it fairly clear here, and I do not see how any court could hold contrary as to fixing "compensation." That means, in effect, fixing wages.

You gentlemen have probably reviewed all of these hearings of the War Policy Commission. Mr. Baruch, who I take it, represents the guiding thought in these matters, described to the War Policies Commission what it meant. It meant to work at a fixed wage or a starve-or-fight proposition. He put it that way, that labor should be treated that way. He said, "Don't 'draft' them but put them under a work, starve-or-fight proposition."

Since the War Policies Commission started operating years ago the dictators of Europe had given all of us a scare as to the use of

the draft of labor, which seems to be the essence of both the Italian and German set-up and applying it as a means of social control rather than as anything else.

Finally the fourth class, men are to be drafted for fighting. You have treated the fourth class differently, and, as I say, perhaps to some extent in the very nature of the thing they must be treated differently.

During the emergency the power is given to control the press and put out of business the press and the radio stations, which is given through licensing, through priorities and the like.

I simply want to say that I am inclined to agree with the War Department that capital will not work for bread and butter and a dollar a day like drafted men. The duty of the War Department is to wage a successful war, and it wants no interference through high taxation or any interference through price fixing on a low basis.

When it comes to patriotism, I do not believe that capital can be forced to be as patriotic as drafted men. I agree with the War Department that capital cannot be as patriotic as the drafted men. Therefore, I do not think a tax on all of the profits—not on new profits but I mean on all profits—is going to be put on without getting a reaction from capital—that they will not work. Many cases came up which show their stubbornness and their refusal to work, representing some of the most prominent industries in the country. And, essentially, they are in the position where the Government needs them more than they need the Government, and they have the power.

There seems to be an agreement that capital cannot be drafted without a constitutional amendment. I have heard nobody who said they think it can be drafted without a constitutional amendment. There is very little certainty that it is quite constitutional to fix profits during an emergency.

I think also it should be remembered that even if this amendment be approved, capital, which the National Grange has spoken of—the Nebraska legislation has described this bill as being, if that amendment were carried as proposed, to draft capital, it will not work. I do not think you could get a single War Department officer to say, "I am going to put that into effect." The comments of people like General Johnson in their columns are, in effect, that you would be trying to actually draft capital, and the Veterans of Foreign Wars and the Legion have talked about it, and the comments are that you would have to change your economic system in time of war.

And you cannot do that sort of thing in the time of war. So even if you passed the amendment and agreed, we could not draft capital with a constitutional amendment I do not think you could get a single War Department officer who would say he would apply it. They do not have the facilities and the trained men to run the thousands and thousands of businesses of all kinds in the country and it would interfere with the winning of the war for them to try to do that.

Since the committee, I take it, is not recommending either an amendment to draft capital, which would be necessary, or an amendment to fix prices, which might very well be necessary, then it certainly is unequal treatment for the bill to stand as it does, providing what I think very definitely coercion of labor. I will say

a draft of labor under another name and a draft of the military men for service overseas.

It seems to me that if the committee—if you will allow me this freedom, sir, conceives that a draft of labor itself is a good thing or if a draft of men for service overseas in advance of any emergency is in the national interest, that those two propositions should be put to the public in that way, and cut out everything in the preamble except “provide for the national defense,” and perhaps even change that to say “providing for national activities overseas.” And then put those two propositions, the draft of labor and the draft of men for service overseas before the country on their own legs without being tied in with any of these propositions, which I feel so strongly, from what study I have been able to give to them, do not either promote peace or prevent profiteering or equalize the burdens of war.

I am now almost through, but I would like to add one thing. If the committee sees that it is in the national interest to require an Army of several million men for service overseas, and if the committee feels that some kind of draft of labor is desirable, then I do beg of you to consider the dangers to democracy involved in turning into the hands of the President the terrific powers of a draft or control over the civilian population.

Mr. Baruch said before you, according to his statement as released to the papers, that “all wars are economic in origin. None of these wars are ever won.” If that is true at all, and if our boys are to be drafted for service overseas in such economic wars, it does seem to me that it might be playing fairly with the people to postpone the draft provisions of this bill both as regard to labor and as regard to men until after the people have had a chance to vote on whether they really think they want to run the risks of having so much of the Government put under military control.

The Munitions Committee, and I do not think I am divulging anything here—was torn by what I suppose you are being torn by at this time, that is, by this dilemma; they tried to treat the four classes equally. They put in a bill trying to tax capital heavily, and the bills are still kicking around over there, as you know. But they did finally come out and say, “we really cannot put labor on a par with capital or draft the men on a par with capital.” They are treated very unequally. So they said that they preferred a referendum under the circumstances. In view of the fact that any President with control over the workers and over the Army for an indefinite time after the war, and in view of that danger, I am quoting now from the report of the Munitions Industry, No. 944, Part 4, page 5:

In view of the growth of dictatorships in the world using labor under military control, it is very important that the people weigh the grave dangers to our democracy involved in the draft of manpower and labor under the conditions proposed. The price of a war may be actual operating dictatorship, under military control, in this country. Possibly, under certain circumstances, that price will not be too high for the people to desire to pay it.

But in this matter the committee suggests that Congress consider putting a limitation upon its own powers, and submit a national referendum at the election in 1938 on the military draft of men for service outside continental America.

The matter is certainly of sufficient importance to warrant Congress in asking the consent of the Nation before imposing the type of draft indicated to be part of the War Department plans.

This was a unanimous report of the committee—four Democrats and three Republicans. There was no objection to using men or drafting men for service in the continental Americas, not only in Panama but in any of the North or South American countries. It is simply a case of asking to send boys overseas and the dangers involved by control of labor and the like. At least, the people should have an opportunity to vote on that, especially because that committee could not say to the people that capital was being drafted or that there was equality in war.

Just a few casual comments, if you will, on the price-fixing of the provisions of the bill. I do not think there is very much argument about this. The price-fixing provisions of the bill do not in themselves hold profits down or prevent profiteering. General McArthur has said such plans are "largely gesture." The job of the War Department is to make prices attractive enough to get production.

During the last war the very unusual situation arose. A company up in my State, Coatesville, the Lukens Steel Co., apparently refused to produce armourplate at \$3.25 a ton. They said they could not do it; they could not make any money on it. And they were given an increase in price, which applied to all of the steel companies.

Many years later in looking at the income-tax returns of that company it was found that in the year which they said they could not produce at \$3.25 per ton they had made a profit of 90 percent. Copper, steel, aluminum, and powder companies forced the Government to pay the prices they wanted, and delayed production until they got those prices.

Under the bill, in spite of the fact you allow only 5 percent of new profits to be retained, costs can still be padded, and far more than those profits secured. For instance, Midvale Steel, which makes armor plate and projectiles for the Government, is using 21 percent of cost as depreciation. In other words, according to their own testimony they are now making the taxpayers pay because of the fact that during the years from 1922 to 1927 there was a naval holiday; so they are charging that up, that is, charging up all of the depreciation to cover those idle years.

If you allow that figure to continue, think what those companies will have in piled-up reserves ready to be declared as stock dividends as soon as the war is over.

The munitions companies have considered that if they act together they will be stronger than the Treasury. They have been fairly arrogant about it. A short time ago our Navy suppliers got together and simply said we are being limited under the Vinson Act to a 10-percent profit, so we will get together and fix up regulations which will let us get more.

Mr. Gillmor, head of Sperry Gyroscope, said:

If the shipbuilders, boiler manufacturers, and electrical manufacturers act in accordance with uniform rules, it will be so strong that I think the Income-Tax Bureau would have a hard time resisting it.

A Government suit against Bethlehem Steel for, I think, 17 million, has been pending for 18 years and has not been settled. About a year ago the master came out and said, "Bethlehem has been making 25 percent on cruisers in peacetime. Therefore, 22 percent in war-

time is not so much", and apparently is going to allow the claims of the company, although the Government very definitely charged fraud and the padding of costs.

If there is to be even a faint echo of talk about equality in another war, high taxes should be levied on all profits, and not merely on new profits after our entry into the war.

I think, Mr. Chairman, from what I have said, that it will be evident what amendments I think should be made to the bill.

The CHAIRMAN. Mr. Raushenbush, with reference to the tax section of the bill, I think I should say, in the first place, that this committee is not a committee that has jurisdiction over tax matters. As you doubtless know, the Ways and Means Committee has jurisdiction over all tax matters. If this committee attempted to draft a report to the House and a tax bill, so to speak, we would be exceeding our jurisdiction, and unquestionably such a bill would be subject to a point of order.

I think I should say also that I believe that it is the consensus of opinion in this committee that what we have in the bill so far as the declaration of tax policies are concerned, is not adequate and not what we wish. I think the most that this committee can do, so far as the tax end of it is concerned, is not to attempt to write or report a tax bill. You realize even if this bill became a law with the provision in it as now written, that provision of itself would not lay any taxes; we would have to have a tax bill saying that a tax shall be levied, and we would have to go into details, and put in all of the definite steps and make it a specific levy. I think the most that this committee could do in a bill of this character would be to declare some general policy of taxation.

I am sure you want to be helpful in any way you can. What I would like to see you do would be to submit to this committee in as succinct a form as possible just what you think the tax policy ought to be in an effort to take the profits out of war. I do not mean that you should write that out right at this minute, or that you should answer it right at this minute. Of course, that would be a matter that you would want to think about. I am sure we would be very happy to have that from you. Have I made myself clear?

Mr. RAUSHENBUSH. Quite so, Mr. Chairman. I do want to be as helpful as I can. But if the committee is not going to go into the taxing, or if you leave that to the Ways and Means Committee, should I submit it to that committee or to you?

The CHAIRMAN. No; submit it to us. You understand we are not asking for a tax bill. As I recall it, the tax bill took in over 200 pages to cover all of the specific levies and steps that must go into a tax bill. We do not have jurisdiction to write such a bill, and we shall not attempt to do it. What we would like to do, and the most that we can do, perhaps, would be to have a declaration of policy as to what a tax bill should be, without writing all of the details of the bill.

Mr. RAUSHENBUSH. I think I can give you that just as simply in 5 or 10 words as I could by waiting until later.

The CHAIRMAN. All right, then. We will be glad to have it.

Mr. RAUSHENBUSH. I would suggest that all profits made during wartime, not only new profits but all profits made during wartime, be taxed up to the extent that the Treasury thinks it can collect. If

the Treasury says 80 percent, all right; if it says 85 percent, all right. But I would not try to draft capital under a taxation provision, because I agree with Treasury officials who have testified, that it cannot be done. I could elaborate on that, sir, but that would be about the basis of my thought on the matter.

The CHAIRMAN. You don't think the Government should or could take all of the war profits?

Mr. RAUSHENBUSH. And still get capital to work?

The CHAIRMAN. Yes; that is what I mean.

Mr. RAUSHENBUSH. No, sir; I do not. I think the evidence is very much to the contrary.

The CHAIRMAN. In other words, it is your thought that capital in this country would not work for what we might term patriotic motives, but it would have to have a profit before it would work? Is that your idea?

Mr. RAUSHENBUSH. Well, sir, I have better evidence on that than some might have.

The CHAIRMAN. I would like to know what your information is, Mr. Raushenbush.

Mr. RAUSHENBUSH. I agree with the munitions people that capital would not work for almost nothing. The Boston ordnance district, which, I take it, is composed of munitions makers up there, made a comment on these contracts the Army was submitting some years ago, and I quote from page 125 of the Munitions Committee report on Wartime Taxes, No. 944, Part 2, in which this Boston ordnance district commented.

The CHAIRMAN. What Boston district is that?

Mr. RAUSHENBUSH. The Boston district of the Ordnance Bureau, I think it is. Colonel Harris can tell you something about this. I think they have the country divided up into ordnance districts, comprised of the people who are going to do the Government work. They shift around to these various districts their tentative contracts and in effect said, "Will you boys work for this?" And this was the answer of the Boston ordnance district.

The CHAIRMAN. What do you mean by the Boston people?

Mr. RAUSHENBUSH. The Boston ordnance district. I do not have the identification of the individuals right here.

The cost-plus contract offers the ideal conditions for profiteering. It seems to the writer questionable whether the Government would have received such whole-hearted cooperation from manufacturers during the World War had all opportunity for profiteering been eliminated. In other words, it seems that there are incentives to the best efforts of the manufacturers in both the fixed-price and the cost-plus contracts which are absent from the adjusted-compensation contract.

The other districts also thought that the award proposed, which was 6 percent, was very inadequate and that the Government would have a hard time getting their munitions in the next war.

The CHAIRMAN. When you speak of the 6 percent profit do you mean that was with reference to that much profit in time of war or that much profit in keeping their business going in time of peace?

Mr. RAUSHENBUSH. In time of peace they run up to 90 percent and the like. The figures which I gave you before were for Du Ponts, 36 percent as a 3-year average. The Army auditors found up to 90 percent for Sperry gyroscope. They make terrific peace-time profits on such peace-time contracts as they get, in many cases. I

think you would have a very hard time to get them to do it in wartime. They are accustomed to getting good money.

The CHAIRMAN. I hold no brief for the munitions makers; but is it not a fact that they do make those large profits, and those profits have to be made in order to take care, perhaps, of investments that have been made in these industries? To illustrate, in the purchase of airplanes, take the Martin bomber. The Martin Co. put some \$400,000 into that particular plane. When the time came for the Army to buy that plane and at the time when that plane came on to the market and was available to the Army, which was far superior to anything else—there was nothing like it at all—the Government had to make some allowance in its price to let this company get back that \$400,000. And, of course, for the first purchases of those planes this price proposition, perhaps, showed a very large profit.

Mr. RAUSHENBUSH. That would be quite true in regard to probably a couple of other things, too.

The CHAIRMAN. The Sperry gyroscope I am not familiar with. But it may be that the inventor of that put a lot of his money into the development of it and inventing it and bringing it out so that the Government would have the benefit of it. We all agree that it is fair as to that.

Mr. RAUSHENBUSH. I was not saying particularly that I was morally indignant about the Government being charged 54 percent by Sperry or 36 percent by the Du Ponts for powder. But you might get up a little indignation by the fact they occasionally sell the powder to foreign government more cheaply.

You are trying to take the profits out in wartime, and my point simply was that if they make high profits in peacetime you are going to have a hard time undoing that and getting them accustomed to low profits in wartime. It is just not in the nature of the animal, it seems to me.

The CHAIRMAN. What is your thought as to how to meet that situation of their getting these high profits in peacetime and then getting the profits down in time of war?

Mr. RAUSHENBUSH. I think you are sort of out of luck in trying it. You are putting this up to the Army, whose duty it is to win the war. After we are once in a war, after the fight to keep us out of foreign wars is lost, then the Army just takes over and just has to get production. It is a very good case it makes when it says, "What is a million dollars in saving? It does not mean anything if we can get the munitions over there."

The CHAIRMAN. But that does not answer my question. What do you suggest in the way of making low profits in wartime?

Mr. RAUSHENBUSH. The majority of the Munitions Committee recommended extension of Government production of combat munitions, Mr. Chairman.

The CHAIRMAN. Well, what do you suggest?

Mr. RAUSHENBUSH. I suggest it with reservations, if you insist, that is, the same recommendation that the majority of the Munitions Committee made. They thought that about the only way you could do it was in this way. You cannot regulate it like you say in the Vinson Act, but the only way you can do it would be to extend the manufacture by the Army and Navy. They are now going a little further—so as to take over almost all of their combat munitions.

The CHAIRMAN. You mean if they commenced to manufacture combat munitions, do you?

Mr. RAUSHENBUSH. The Government is manufacturing combat munitions. The Government is manufacturing about half of them.

The CHAIRMAN. But let them manufacture all of the combat munitions? Is that your thought, too?

Mr. RAUSHENBUSH. I do not attach as much importance to it as they did. I may be wrong, but it seems to me that major wars are caused by bigger things—trade matters, prestige matters, trade rivalries, race prejudice, and so on. In other words, the wars that we are likely to get into are probably not going to be caused by people who make combat munitions. I think our whole Nation, with everybody in it, from the farmers up to, or shall I say down to, the bankers, and everybody else has just as much influence.

The CHAIRMAN. Down to the bankers, did you say?

Mr. RAUSHENBUSH. Yes; or down to the bankers. They have as much influence in getting us into foreign wars as these particular producers of combat munitions. I do think that you do a couple of things. And I wish I could persuade the War Department of this. You do save some money by producing in peacetime your combat munitions. I really think that is the case. You might lose something in the technological rapidly changing industries like aircraft; and the Munitions Committee did not recommend that the Government go into that. But, by and large, on the simpler things, like armorplate and ships, and so on, you can buy the best private brains and save quite a lot of money for the Government by doing it. And you would also, to some extent, eliminate the practice of the munitions companies sending salesmen all over the world with bribes in their hands. I think that is impressive. But these Senators were more emphatic than I am. I don't think it would have much influence on our staying out of a foreign war.

The CHAIRMAN. That is your opinion, is it?

Mr. RAUSHENBUSH. That is just my own opinion, which you have asked for, Mr. Chairman.

The CHAIRMAN. Mr. Raushenbush, you have commented a great deal upon this draft of manpower for the Army and the Navy in time of war, and you kept using and more or less emphasizing the term "overseas." So far as the provisions of this bill are concerned, they would apply in the event of war at home or anywhere else.

Mr. RAUSHENBUSH. There is no limitation.

The CHAIRMAN. Certainly not. So you cannot read anything into it that this is a special draft to send somebody overseas.

Mr. RAUSHENBUSH. And let me explain how I did that. I may have been wrong, but I was going upon the assumption that the National Guard was really for that purpose, that is, the defense of the country. Perhaps I am overly influenced by General Hagood's recent book on that. But that was my picture of the defense—the fleet, plus coast defense, plus National Guard, were essential for the defense of the country. So when you add to that general structure, which runs all over the States of the country, a sudden draft of two or three million men, or perhaps 4,000,000 men, I don't know how many you would get. But the point I made was not what you and I thought it would be used for, but what effect it would have

in the general world discussion and how it would be understood abroad. And that was the point that I was making.

The CHAIRMAN. I can understand that there has been an honest difference of opinion. But, frankly, I would like to say that I belong to the George Washington school of thought on that—that believes in adequate preparedness, as he so well expressed it, in maintaining a defensive posture. I do not think there is a dictator in Europe, however foolish he may be, who for one moment thinks we have any materialistic or aggressive design. They know that we are not seeking anything in Europe. And when you take any step to build up our national defense, whether it be an enlargement of our National Guard or to give somebody training as a Reserve, or prepare for the raising of an army by a draft in the event of war, they all know that is for defensive purposes for the United States.

Mr. RAUSHENBUSH. You may be quite right so far as Europe is concerned. But I was looking at the other side of the world and making a comparison with an announcement of this kind before we got into an emergency and suddenly tripling the size of our fleet, or if M had suddenly tripled the size of their fleet. We would then begin to recast plans and the whole question of disarmament in the world. In other words, I think there would be an excuse for M to put another 2,000,000 men under arms.

The CHAIRMAN. Don't you think if M wanted to do that, that she would not hesitate to do it, anyway?

Mr. RAUSHENBUSH. Yes, sir; because very recently it has been shown that there is still a little democracy over there. The civilian population is fighting back against that power.

The CHAIRMAN. But the army is still pretty well in control, though?

Mr. RAUSHENBUSH. Yes; but they are fighting back.

The CHAIRMAN. They are still pursuing their imperialistic designs so far as C is concerned?

Mr. RAUSHENBUSH. Yes, sir. It is just like giving the Army a new lease on life. For instance, if one of our admirals, or if you, as chairman of this committee, said that obviously our duty is to fight M and we will spend the next 3 years getting ready to go over there, that would give the Diet an excuse for raising a terrific army in M.

The CHAIRMAN. But that kind of a statement is entirely different than one as to the idea of defense of the United States. But there is room for a difference of opinion. Some people in this country do not believe in any army or any preparation at all.

Mr. RAUSHENBUSH. I believe in the defense of the country.

The CHAIRMAN. You believe in reasonable preparedness?

Mr. RAUSHENBUSH. Yes, sir; I do. But I follow General Hagood rather than some of our Navy people as to what preparedness is. But perhaps that is a minor matter. But I was talking about the pretext or the excuse that this would give the war lords abroad for the further militarization of their countries.

The CHAIRMAN. On the other hand, I think this would say to the war lords abroad, "Keep your hands off of the United States." I think if we had some measure of preparedness in 1914, 1915, and 1916 we would never have gone into the World War.

In your testimony with reference to this provision about drafting management, as I understood your testimony, you drew the conclu-

sion that it left a thought that that perhaps might be a good way out, to exempt management from military or naval draft.

Mr. RAUSHENBUSH. I think that would be the result of the section; yes, Mr. Chairman.

The CHAIRMAN. Of course, you realize that when we had the draft during the World War we had exemptions, as we would have here, the idea being that what we wanted to do was to win the war and make the Nation as effective and as efficient as possible to bring that war to a successful conclusion as early as possible. And there would be no more reason to exempt management than a man making shoes for the men in the Army, or something of that kind. If management is necessary to the carrying on of an industry, management may be exempted from military service.

Mr. RAUSHENBUSH. I am a little surprised to hear you interpret it in that way. I thought this would pretty thoroughly take them out of military service.

The CHAIRMAN. Not at all. If the President of the United States, in his wisdom in making these exemptions, thought a man was worth more in a shoe factory or in an ordnance factory, then he has that, and rightfully so, in his hands, whether that man be a mechanic or an artisan or if he is in some administrative or managerial position. There would be the power to permit him to remain where he was, if he was of more value to the Government in that position than in the Army. And that is what we had during the World War, did we not? If we had another war the chances are that we would operate a draft about as we did in the World War. And I doubt if this country ever did anything more successfully or with less favoritism, and certainly without any scandal whatever, than when it administered the draft.

Mr. RAUSHENBUSH. I did not remain on this side long enough to find out. I was over there.

The CHAIRMAN. You come before the committee as an expert on this subject; and when you answer like that, that you did not stay on this side long enough to find out, that is one thing. But you studied this matter, and you know how the Draft Act was administered during the World War, don't you? I take it that you were not drafted, were you?

Mr. RAUSHENBUSH. No, sir. I volunteered. But it is one of those special subjects on which you can get far better opinions than mine as to how well it operated. I assume it operated all right, if that is the point.

The CHAIRMAN. Do you know of anybody who reported that it did not operate all right?

Mr. RAUSHENBUSH. The one time it came up, I think, was before a House committee, as I remember, when Mr. Coffin, one of the prominent people in the War Industries Board, was questioned about one part of it. And this I do remember: He was asked about the idea of drafting men and putting them into private industry. He was referring to what is sometimes called the spruce division, out on the west coast. Now that you have asked me about it, I do remember that matter of putting men into uniform and apparently making them take the jobs of private employees, which did provoke some criticism. I had forgotten it until you refreshed my recollection about it.

The CHAIRMAN. That was a mere incident as compared with the great draft in this country of men into the military and naval services.

Mr. RAUSHENBUSH. Yes; I think so. The Munitions Committee saw in these plans the evils, and it seemed to them that the laborers were going under the practical draft, and they thought that was a dangerous thing.

The CHAIRMAN. They were doing what?

Mr. RAUSHENBUSH. In effect, they were going to be drafted in the next war. That was an innovation, and they thought it was dangerous.

The CHAIRMAN. In your testimony you have left the thought that you feel that under this bill labor is drafted.

Mr. RAUSHENBUSH. Yes, sir. I did not see anything in this bill which negates or throws out any of the background of the bill, or of the McSwain bill, its predecessor, or of the War Policies Commission report, the predecessor of that. The same people in the Army, I take it, Mr. Baruch, and others, are still making the plans as to how the next war will be conducted, and no Army person has ever come out and said: "No; these are not the plans. We have changed them."

The CHAIRMAN. What is your idea on the provision of this bill which would draft labor; that is, that would make labor work in a factory by compulsion as you would draft a man into the Army and make him a soldier in the Army.

Mr. RAUSHENBUSH. Wasn't the specific provision—

The CHAIRMAN. There is no provision.

Mr. RAUSHENBUSH. I think I have a point if you will allow me to make it. It is not so much the specific provision as the omission of protection. In section 1 compensation has been frozen. And, as I explained, I take it to mean wages. In section 3, lines 9 to 18, on page 2, it in no way protects labor from exactly the sort of provision which Mr. Baruch said would be applied to labor, which language seems to me to be still governing until it has been pulled back. And I have not heard him nor anybody else in power pull it back.

I am quoting from the War Policies Commission's hearings, page 360.

The CHAIRMAN. And who is testifying now?

Mr. RAUSHENBUSH. It is Mr. Baruch. [Reading:]

No matter what the grounds for your deferment may be, unless you are faithfully, continuously, and usefully employed in a capacity and for an enterprise determined by the Government to be essential to the prosecution of the war, your deferment will be canceled and you will immediately be called for service with the colors.

In other words, I read into that that unless the man remains at the job he is able to work at, at the wages fixed under section 1, he will be immediately called to the colors. Mr. Baruch has said that the Government can go much further. Still quoting from the War Policies Commission hearing:

It can say that if a man be called and found unfit for military service, but fit for other work in the essential lists (of industries), he must so employ himself or be cut off from rations, transportation, fuel, and supplies.

In other words, he will starve. Mr. Baruch said that that principle, "work, starve, or fight", is capable of immense expansion.

The CHAIRMAN. Of course, under a draft provision every man within the age limits fixed in that provision is subject to the draft. The theory is that every man would be drafted. But you make these exemptions for certain men because they are doing more important and more necessary work somewhere else. Then, of course, when a man ceases of his own accord to do this other more important and more necessary work he loses his exemption and automatically comes in the draft. But there is absolutely nothing in that section to draft a man into anything but, as the clear language says, "the military service of the United States." That is not drafting a man to work in industry somewhere.

Mr. RAUSHENBUSH. I thought in your own bill, H. R. 2, you had made some kind of an exemption, but there is not in this one, although my memory may be wrong as to that. The preceding bills were all sort of boiled together into this one short section of eight lines as drawn by the Army. Senator Clark introduced them. Senate 1719, I think, is the draft bill. In there the whole procedure of deferring and then canceling deferment was worked out. In this section it does not seem to me that you have put in any guaranty that in any way protects against a hard-boiled President. And, Mr. Chairman, we are assuming that the present President is not going to be President forever, and it is possible that we will sometime have a tough man as President who is faced with an economic crisis of considerable proportions who will suddenly find himself vested with terrific powers. And it is against that sort of person, rather than against the present President, that you might find it of advantage to guard that condition. It would give a Hitler, if we ever had one in this country, the power to put you and everybody else in Congress in the Army.

The CHAIRMAN. You are afraid that some President might abolish Congress by drafting our Members?

Mr. RAUSHENBUSH. No, sir. But I am pointing out the previous bills did not have a guaranty against that. Nor was there a guaranty for a laborer who went on strike and wanted 5 cents more and said his children were in rags, from being cut off of rations and being put into the Army. I do not think you have protected against that.

The CHAIRMAN. Have you ever studied the draft law as it was passed?

Mr. RAUSHENBUSH. I have read it; but it has been 2 years since I read it.

Mr. MAY. In the first question you were asked to give your experience as a basis of your qualifications to testify before this committee, and you stated a great many activities in the way of investigations, even including a lot of experience with congressional committees. In the course of your investigations did you ever make any inquiry as to the policy of the United States Government with respect to the provoking of a war or having a policy of national defense of its own in the nature of self defense?

Mr. RAUSHENBUSH. I have read as much as the ordinary layman has read on it, I suppose.

Mr. MAY. You have discovered in the course of those investigations that the war policy of the United States would keep out of wars and to operate on a defensive plan, did you not?

Mr. RAUSHENBUSH. Do you mean throughout its whole history?

Mr. MAY. Yes; throughout its whole history.

Mr. RAUSHENBUSH. No, sir; I did not.

Mr. MAY. Was there any instance in which we went out to fight without first being provoked, except when we fought for the freedom of the seas in the War of 1812?

Mr. RAUSHENBUSH. If you put the question in that way, I think we have always had plenty of provocation; yes, sir.

Mr. MAY. You made the further statement here that you could not tell from this bill whether this committee was intending to provide for an invasion of a foreign country. You do not think this committee or any other congressional committee wants to bring on any invasion of any foreign country for imperialistic purposes or for any other purposes, do you?

Mr. RAUSHENBUSH. I certainly hope not. If you will allow me to say so, Mr. May, I feel I was, perhaps, a little more guarded in my language. You will remember I was trying to say, in reply to a question from the chairman, that this might be misunderstood. I said its effect on the peace of the world, that is, in 1937, before we were in any emergency, is equivalent to an announcement by any great power that it proposed to triple the size of its fleet. It offers the military rulers of other nations a pretext for increasing their forces. That was the intent of my statement.

Mr. MAY. As a matter of fact, there are foreign nations which are now making immense preparations for war and have been at it every since the World War. Wouldn't this just be an announcement that we are preparing for defense rather than invasion?

Mr. RAUSHENBUSH. The late Frank Simonds, whom you may have read, who was as good a commentator on military affairs as we have ever had, pointed out the situation. He said, "We, the American people, always considered ourselves pacifists like the British", because we had a small army. The British Navy and the American Navy did manage to throw a scare into some people, as much so as if we had a big army like France or Germany. But I do not feel qualified as a military expert.

The CHAIRMAN. What do you say as to the principle of adequate preparedness for war being a sure guarantee of peace?

Mr. RAUSHENBUSH. If you leave out the "sure guarantee", I think preparation for war in this modern world is something that we cannot duck.

The CHAIRMAN. In other words, you do not think if foreign nations knew that we were better prepared for war than we were before that they would keep hands off?

Mr. RAUSHENBUSH. It is not so much a matter of their keeping hands off. If you mean by doubling or tripling the size of our fleet, then, certainly the House and Senate has been wasting their time in this neutrality legislation. And certainly Senator Pittman, in that speech of his on Monday, was just doing nothing. He made a whole case there for 2 hours on the proposition that the Navy could not keep us out of a foreign war, that we had to do other things. And I would take the attitude that he is right, that other things are needed, such as neutrality legislation.

The CHAIRMAN. Have you read the article in this week's Nations Business on Neutrality?

Mr. RAUSHENBUSH. No, sir; I have not. But I read that speech.

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Mr. RAUSHENBUSH. It is not so much a matter of their keeping hands off. If you mean by doubling or tripling the size of our fleet, then, certainly the House and Senate has been wasting their time in this neutrality legislation. And certainly Senator Pittman, in that speech of his on Monday, was just doing nothing. He made a whole case there for 2 hours on the proposition that the Navy could not keep us out of a foreign war, that we had to do other things. And I would take the attitude that he is right, that other things are needed, such as neutrality legislation.

The CHAIRMAN. Have you read the article in this week's Nations Business on Neutrality?

Mr. RAUSHENBUSH. No, sir; I have not. But I read that speech.

Mr. MAVERICK. I think what we want to arrive at is whether we should do anything and, if we should do anything, what it should be. I do not think that has been determined. This bill has two or three sections. One is for the drafting of soldiers and the other for the drafting of labor, and another for the drafting of business. In the first place, do you think it is necessary to have a bill of any kind at this time?

Mr. RAUSHENBUSH. The answer would run like this, I think. In view of the increasing tension in Europe, if the War Department said, "Well, sometime in the future there is danger of being drawn in, and in order to be prepared at that moment we must be able to have a little better mechanism for price fixing and contracts and the like", then presumably they should have that power.

I should say, sir, the objection I was making, was really this. The bill would shape up as saying, or at least people sometimes say that it tends toward drafting capital and that it tends toward drafting management, and therefore, it is all right to coerce labor to the extent it is coercion and a draft of men. This bill certainly does not draft capital. Therefore, the result of it, although probably not the intent, is simply to put in a draft of men and power over labor long before an emergency starts. And I do not think that is fair or equal treatment, certainly.

Mr. MAVERICK. I want to differ with the chairman, because we are all striving for the same purpose. And I think he said the purpose is to declare a general policy.

The CHAIRMAN. I said on the tax matter.

Mr. MAVERICK. Then, would not the effect of that general policy be that the business firms would be more or less freed in the draft, subject more or less to the discretion of the War Department and the Internal Revenue Department, and that men and labor in effect would be drafted?

Mr. RAUSHENBUSH. I think the general conclusion is right, except I do not think business firms would even feel any danger of being drafted either by the War Department or by the Treasury. I do not see how the War Department officials could come before you and say "We want to draft capital." I do not think you will find any high Government officials doing that.

Mr. MAVERICK. In section 3 it says [reading]:

In the event of war, or of a national emergency declared by Congress to exist, which, in the judgment of the President, demands the immediate increase of the Military Establishment the President be, and he is hereby, authorized to draft into the military service of the United States such members of the unorganized militia between the ages of 21 and 31 as he may deem necessary.

At the present time in the United States we have what we call soldier labor. In my district, which is the biggest military district in the world, they use almost entirely soldier labor; and that is considered in military service. As a matter of fact, under these provisions we will say we have labor troubles in Louisiana, in the pine forests there; and would not the President, saying that lumber is absolutely necessary, or, let us say, coal in Pennsylvania, or iron in Alabama, or whatever it is, under the broad powers of military necessity be able to classify that as military service?

Mr. RAUSHENBUSH. It would seem so to me from my reading of it and from a reading of the background of it. And the spruce division, where that was done, would seem to me to be in point.

Mr. MAVERICK. You gave an answer about taxation which I think is somewhat indefinite. I believe that you used the words that the Treasury should get as much as they could. But we do not write laws that way. We cannot say, "Get as much as you can."

Mr. RAUSHENBUSH. That was not my suggestion. My suggestion in reply to the chairman's question was to consult with the Treasury experts, and if they said they thought they could get 85 percent, then good. If the Treasury really thinks it cannot be done, it is no good. In the course of these hearings Mr. Baruch suggested the only way to collect taxes, was, if I became Secretary of the Treasury. I said I did not think if I were Secretary of the Treasury I would collect any more taxes than anybody else. I would let the people down, because the pressure is too terrific.

One of his own businesses lost its profits during the depression after the war. They had paid out about \$8,000,000 in dividends, and after the depression they could not pay any taxes on their war profits. And I, as Secretary of the Treasury, to go in there and say, "Now, pay up" and ruin their business? That would not do.

Mr. MAVERICK. The chairman said this tax bill I introduced was 200 pages long. And it is a mighty long bill. Do you believe this bill comes nearer meeting the situation than the legislation which we have before us? Is it any better? I have no pride of authorship in it, and you will not hurt my feelings if you say either that it is or that it is not.

Mr. RAUSHENBUSH. Let me answer as frankly as I can. I had nothing to do with the drafting of the bill or Senator Nye's bill, and I can speak with some detachment. First, I do not think that it will pass, because the tax rate is high. And until an emergency comes, or even after an emergency comes, no Congressman would like to be accused of levying taxes. However, that is a personal opinion.

In the second place, I think the bill approaches the draft of capital more nearly than H. R. 1954. It starts by taking a great more of all profits, whereas this one simply takes the new profits, which is a very different thing. And then your bill comes in with equalizing the burdens of war. And to a bill like that one could not make quite the same objection as to inequality. Of course, there is the inequality that some may die and other live on only \$10,000 a year. But you cannot say it is so terribly unequal.

Mr. MAVERICK. In connection with the draft, it is my opinion that we have the best Army in the history of the United States. I don't know anything about the Navy, but I think we have the best Army in the history of the United States. With your familiarity with the Army and the National Defense Act, do you think it wise at this time to enact legislation which will, in effect, in my opinion, of course, be a draft of human beings and not a draft of capital? Do you think it would be wise to enact that legislation, or is it necessary at this time?

Mr. RAUSHENBUSH. I disqualified myself as being a military expert. I think I should follow the general lines of General Hagood—a small mechanized army. But I was arguing it from the point of its effect on peace and on equality. I do not think the draft leaves the men on a par with capital at all. I do not think it would have a particularly salutary effect on world peace. So far as your own

question as to military efficiency goes, I think you would have to call others on that.

Mr. MAVERICK. As a matter of fact, do you not think that in order to have a well-balanced bill that we should call in the War Department as to the national defense and call in the Treasury as to the taxation features?

Mr. RAUSHENBUSH. If your committee is going to deal with the tax features; yes, sir.

Mr. MAVERICK. Well, I think we should. I think you testified we have never been in an unjust war and that we never had any imperialistic designs?

Mr. RAUSHENBUSH. No, sir. Please don't say that. I qualified that. The question was whether I thought that, and I said I thought we had never gone into a war in which we felt we had no provocation to go in.

Mr. MAVERICK. Do you think our war with Mexico, in which we took the entire western portion of the United States, was one in which we had sufficient provocation—that we wanted the land?

Mr. RAUSHENBUSH. Dr. Beard says that was the basis of that war—that we had the best of reasons; that we wanted the land.

Mr. SMITH. You speak of General Hagood and his recent work on national defense. Do I understand you to believe he opposes the draft?

Mr. RAUSHENBUSH. As I remember the book, there is nothing in there that bases the Army around the draft. I cannot remember the whole book, but he does come out very clearly for a small army, with a National Guard doing coast-defense duties. He is very much against an overseas army.

Mr. SMITH. He is very much in favor of the training of reserve officers, is he not?

Mr. RAUSHENBUSH. Yes, sir; I think that is right.

Mr. SMITH. As the framework of a large wartime army of defense?

Mr. RAUSHENBUSH. I don't know whether it would be larger than the National Guard.

Mr. SMITH. I mean larger than the peacetime army.

Mr. RAUSHENBUSH. He is for the National Guard being well trained.

Mr. SMITH. And also for reserve officers?

Mr. RAUSHENBUSH. Well, I don't know as to that. I don't remember that.

Mr. SMITH. I wondered if you had any statement of his opposition to this draft?

Mr. RAUSHENBUSH. I have his book here but I do not remember that. He makes an interesting point that I was interested in, in talking about the fact that it is practically impossible for us to go over to M to fight them or for M or anybody else to come over here. He does point out the change in warfare which makes it harder for troops to go across, with aircraft bombers and so on. So our ideas about shipping another 4,000,000 men to France today would mean that it would be simply suicide for us to attempt it.

Mr. SMITH. As I recall his statements, he believes in an extremely powerful navy and a very heavy coast-defense army. But I did not understand that he was opposed to the draft to provide an army

for defense if we were attacked. That is one thing I wanted to clear up in your statement.

Mr. RAUSHENBUSH. He spent so much time on the National Guard that I don't remember whether he commits himself one way or the other on the other matter.

Mr. DORSEY. In time of peace, Mr. Raushenbush, under our economic and social set-up we have developed inequality throughout the population in the country, and, for instance, even within labor itself we have mechanics at different rates of pay and different returns for the work that is done. We have the labor, the capitalistic, and the managing class with which we are trying to deal. And in time of war we still have that set-up. From your statement I take it that you feel that we cannot arrive at such a thing as equality in universal service, that it is merely an ideal, and to keep an adjustment in time of war it is rather impossible because capital will not cooperate and will want increased profits. Is that your conclusion?

Mr. RAUSHENBUSH. Well, I have several other conclusions. That is Mr. Baruch's conclusion. He said this is only an ideal; it is not a goal. I agree with the first part of what you said, namely that there are those inequalities, not only in the classes but among the classes, such, for instance as the big vice presidents and the little vice president, and so on. And it is so among management; there are those inequalities. And you really cannot equalize them in time of war.

My only purpose in mentioning that fact was to comment upon the fact that in this bill the intent is stated to be to equalize the burdens. But I do not think you can do it. Therefore, I go further than Mr. Baruch and I say that I do not think you should say that you are going to do it, because you cannot do it.

Mr. DORSEY. Don't you think the object of such legislation as this is not so much to equalize the burdens as it is to keep the balance in wartime as it existed in time of peace?

Mr. RAUSHENBUSH. You sort of freeze things so that they do not get unstable.

Mr. DORSEY. No; I did not use the word "freeze", and I do not see how you can read into the legislation the word "freeze".

Mr. RAUSHENBUSH. I read it in section 2.

Mr. DORSEY. There is no intent in section 2 to freeze anything. If you read that section carefully you will see that it is so that prices, rent, rates, compensation, commissions, or reward can be kept in balance, can be adjusted upward or downward. It is not freezing the particular price, rent, or commission.

Mr. RAUSHENBUSH. That is right. In section 1, price, compensation, and everything are fixed as of the date of such proclamation. I think that is freezing.

Mr. DORSEY. Yes; but you must read the legislation, not one section but all sections, as it pertains to other parts of the legislation. And section 2 says definitely in line 3 "or reward previously proclaimed shall be adjusted either upward or downward." The President, by proclamation, can do this.

Mr. RAUSHENBUSH. Yes; unfreeze.

Mr. DORSEY. So it is really not freezing through this legislation. As I understand you, you say that there should be a referendum before the National Guard is forced to engage in any combat on foreign soil.

Mr. RAUSHENBUSH. I was not thinking particularly of the National Guard but I was thinking of the rest of the country. I say that Mr. Ludlow's amendment has some point to it, for the very fact that you cannot get equality. So before you ask some people to suffer more than others, it seems to me that there is some point in allowing the people to say whether they really want their boys to die overseas.

Mr. DORSEY. Of course, there would be no inequality if the war were fought in the United States.

Mr. RAUSHENBUSH. No, sir. I do not think you would want a referendum in case the country was invaded.

Mr. DORSEY. Suppose this situation were to arise, that Great Britain were to attack the United States and we entered into a war and our troops go out to defend parts of the Nation; would you say after warding off that attack in order to prevent further attack that we should not send troops over to England to fight them without first taking a vote in this country?

Mr. RAUSHENBUSH. No, sir; I do not.

Mr. DORSEY. It seems to me that that program would be impractical.

Mr. RAUSHENBUSH. It was not Mr. Ludlow's proposal at all. Once England has started attacking us—although it seems preposterous—then without any referendum war would be in operation under the direction of the President, who could take his troops overseas, and he could fight the war in China, in Africa, or anywhere else. And there would be no limit on that if he thought it necessary to destroy the enemy. That is not the Munitions Committee's proposal or Mr. Ludlow's proposal. The boys may want to be drafted. The people of the country may be wrong, but at least they should have the opportunity to say either yes or no.

Mr. DORSEY. In referring to the referendum you referred to some time after the declaration of war?

Mr. RAUSHENBUSH. There are two propositions. One is Mr. Ludlow's for a constitutional amendment, as I take it, on any declaration of war. The other proposal was the unanimous one by the Senate Munitions Committee as a way out of this dilemma, that you are not going to draft capital and you are going to draft men. The thought is that you are going to hold an election in 1938 to govern Congress and let Congress be advised by that referendum as to the sending of drafted men outside of continental United States.

Mr. DORSEY. In case there were an invasion of the country we could not ward off the invasion.

Mr. RAUSHENBUSH. It would not apply in the case of invasion. There would be no referendum then.

Mr. DORSEY. After the country was invaded you would be free to take the men overseas?

Mr. RAUSHENBUSH. Yes, sir; that is right.

Mr. WILCOX. I understand it is your idea that the Army should not be sent overseas or onto foreign soil unless an actual attack already had been made on the United States; that is, without taking a referendum. I would like to get your idea as to that. What is your opinion as to that?

Mr. RAUSHENBUSH. I did not come here particularly qualified to discuss the Ludlow amendment.

Mr. WILCOX. Irrespective of his amendment, what is your idea with reference to the conduct of war on foreign soil?

Mr. RAUSHENBUSH. I do not think the country wants it at all. They do not want to see the boys go over to China and die or over France.

Mr. WILCOX. Well, I am sure they do not. I do not, and nobody else does. The trouble about announcing the general statement of policy that no war will be fought on foreign soil is that conditions may arise whereby your general statement of policy would leave you open to invasion. Let us, for example, take some enemy. There is the country, for example, which has engaged in some wars in the past and pursued the policy of not declaring war until after a death-blow had been struck. When Japan decided to make war on Russia they did not declare war on Russia and warn them that they were going to get into a war with them; they struck their deathblow. When they decided to invade Manchuria she did not declare war. She moved in and took it and said it was hers.

Suppose a nation of that sort wanted to conduct an invasion of the United States, and without a declaration of war, and with full knowledge on the part of the public in this country that that was its intention, and suppose she moves her troops into Mexico and uses Mexico as Germany used Belgium to get at France; she simply uses Mexico as a corridor through which she would move into the United States. Do you think we should wait on our side of the Rio Grande until there is an actual attack, or should we go down there and stop them before they get their army landed in Mexico?

Mr. RAUSHENBUSH. This proposal very definitely is only to forbid the drafting of men for service outside of continental America. As I understand the Monroe Doctrine, we would be down there with our whole Army and our whole fleet in order to prevent any foreign government's entering their troops into Mexico or in any other place in South America.

Mr. WILCOX. I do not know that the Monroe Doctrine requires that. The Monroe Doctrine is that we shall protect those countries from aggression against them. Suppose it were being done with the full agreement of Mexico; should we wait until after the army is landed in Mexico before we take any measures, or would it not be the part of wisdom to go down there and destroy them before they had their army landed?

Mr. RAUSHENBUSH. It would not only be the part of wisdom, but I think it is what all of these resolutions allow. As I understand it, they do not prevent that.

Mr. WILCOX. Take another case in connection with continental America. Down in the Caribbean area there are hundreds of islands, many of which are owned by foreign countries. They have a perfect right to occupy those islands at any time they see fit to do so. Suppose without a declaration of war, or after a declaration of war, we discovered that they are moving in their air forces and establishing air bases on their own islands in the Caribbean area, with the evident intention of flying those airships into the United States at a later date. Should we wait until after she has actually launched her airships against us, or should we go down there and destroy those bases?

Mr. RAUSHENBUSH. When you get it down to that basis, as to Holland, which has Caracao down there, or as to England or France attacking us, you are getting into the realm of improbabilities.

Mr. WILCOX. In 1914 it was very improbable that we would ever get into the World War also.

Mr. RAUSHENBUSH. It was less probable that we would ever fight England. And that is still the case.

Mr. WILCOX. I agree with you on that. But I am just calling your attention to the impossibility of announcing a principle in general terms that will apply. There will be exceptions, so you cannot possibly stick to a principle of that sort. I am as much opposed as you are to sending American soldiers to France to fight Germany and as much opposed as you are to sending our boys to any other country, except on just provocation. But I can visualize any number of instances where the appropriate defense of this country would require the sending of troops to foreign soil to fight and to battle for the defense of the United States.

Mr. RAUSHENBUSH. But not necessarily in the Caribbean Islands.

Mr. WILCOX. Suppose they undertake to use Canada as a corridor through which to enter this country. All of those things may arise. And you cannot announce a general policy which will apply in all instances and under all conditions; that is, that you will never fight a battle on foreign soil except with professional soldiers.

Mr. RAUSHENBUSH. Canada is a part of the continental America. There would be no restriction as to sending troops to Canada.

Mr. WILCOX. My opinion as to an election on this matter is that you are not going to find out what the election returns are.

Mr. RAUSHENBUSH. That is a little swifter crack than I think the thing warrants. You have your professional Army and your Navy. Supposedly under the President they can conduct almost any kind of war that the President wants to use them for and that Congress lets them be used for.

This proposition is simply not fair in view of the danger of a draft of laboring men, the danger in these days under a hard-boiled President. You also want the people of the country to be drafted instead of their volunteering, without letting them have the say so, that is, for service in Europe.

Mr. RUTHERFORD. I was wondering whether the people that you represent have a substitute bill that they suggest for taking the profits out of war which will meet the requirements.

Mr. RAUSHENBUSH. Whether who has such a bill?

Mr. RUTHERFORD. Either you or the people you represent. I mean whether you have a substitute bill to work out these matters.

Mr. RAUSHENBUSH. I was asked to present statements from four organizations. I want to make it clear that they should not be held responsible for everything that I have said. They may differ very strongly on some things. I am not a member of any of those organizations I mentioned.

I think amendments could be made rather simply to cut out the preamble, except for the words "to provide for the national defense."

On page 1, line 8, add some phrase such as "other than wages" to protect wages. The same thing on page 2, line 3. The same protection on page 2, line 8, adding "in protection of the freedom of the

press", which could be put out of business, and also radio stations. That would have to be repeated later on under licensees of business.

Eliminate section 3, the whole military draft, and let it stand on its own feet as a national-defense measure in another bill where people will not be confused by it as an attempt to establish equality.

Eliminate section 4, the draft of management, still letting them get business salaries.

On page 3, line 21, again put in the protection for the press, so that not all of the newspapers can be confiscated.

Senator Clark in looking at the McSwain bill, which had some language similar to the Hill bill, in a colloquy with Colonel Harris called attention to the fact that you could put a newspaper out of business under a section like that. Page 4, line 9, add the same sort of protection for the press, and then in the final section, after you have found out from the Treasury how much of these profits can be successfully taxed, then do it. But put it in, whatever it is. If you find in your judgment that tax is really not the equivalent of drafting men or drafting labor, then it does not seem to me to come in a bill in which an attempt is being made to equalize the burdens of war.

I think those nine amendments should be considered by the committee at any rate.

The CHAIRMAN. Are there any further questions?

Mr. SCHAEFER. Have those nine amendments been submitted in the record?

Mr. HILL. The reporter is taking them now for the record.

Mr. RAUSHENBUSH. I was just reading them for the record.

Mr. CLASON. I would like to ask if you think there would be much left to the bill after the nine amendments were made.

Mr. RAUSHENBUSH. If the War Department wants to make the munitions people feel that they can only go ahead with contracts for a coming war, with the price-fixing powers to which Mr. Baruch attaches some importance they should have those powers. I do not think they mean taking the profits out of war. General MacArthur said they were simply "gestures." And if the War Department thinks they are important, they should get those powers. They will get a certain amount of understanding of the matter so far as the public is concerned. The Nebraska Legislature's action came to my attention, and they said this bill drafted capital. I am sure your chairman, or somebody else, wrote them and said that it is a great mistake.

The CHAIRMAN. Oh, no; I did not write them. I do not always try to correct witness' statement.

Mr. CLASON. It leaves a bill to provide for price fixing in time of war.

Mr. RAUSHENBUSH. And such taxes as you chose to fix; but let the other things stand on their merits. I think the other things should be considered by Congress. I meant simply to submit them as plain national-defense measures. It is a tying up with something that cannot be done that I thought was worthy of comment.

Mr. SCHAEFER. You were referring to what the War Department thinks, and you always talked about munitions. How about other commodities, the rise in prices of other essential commodities. That is what I am interested in particularly in connection with the price-fixing proposition. It is not only taking the munitions.

Mr. RAUSHENBUSH. Certainly if you are going to have a war you will have and should have price fixing. I do not think it has much to do with taking the profits out of war. It is a mechanism of social control.

Mr. SCHAEFER. Certainly if you had peace-time prices on commodities and labor you would prevent excess profits in time of war, would you not?

Mr. RAUSHENBUSH. Personally I would try to do it.

Mr. SCHAEFER. That is all.

The CHAIRMAN. Are there any further questions?

(No response.)

If not, is there anything further you would like to say, Mr. Raushenbush?

Mr. RAUSHENBUSH. No, Mr. Chairman.

The CHAIRMAN. Then the committee will stand adjourned.

(Thereupon, at 12:33 p. m., the committee adjourned.)

TAKING THE PROFITS OUT OF WAR

MONDAY, MARCH 22, 1937

HOUSE OF REPRESENTATIVES,
COMMITTEE ON MILITARY AFFAIRS,
Washington, D. C.

The committee met, pursuant to notice, at 10:35 a. m., to resume consideration of H. R. 1954, Hon. Lister Hill (chairman) presiding.

The CHAIRMAN. The committee will kindly come to order. Gentlemen, we have as a witness this morning one who needs no introduction to this committee, or for that matter, to any committee in America, because he is already known by this committee, and by any informed group, our good friend Gen. Hugh S. Johnson. His very name tells a story. I shall not elaborate on that story. We are privileged to have General Johnson here this morning on H. R. 1954, on the general subject of taking the profit out of war. The older members of the committee will remember that the General was here 2 years ago on this same subject, and you will remember the very fine testimony he gave on that occasion at that time.

General, without any more preliminaries, we are going to let you fire.

STATEMENT OF GEN. HUGH S. JOHNSON, FORMER ADMINISTRATOR OF NATIONAL RECOVERY ADMINISTRATION

General JOHNSON. I have no prepared statement. I merely came down with the idea that if there were any questions that I could answer by reason of the study that I have given to this subject, I should be glad to answer them.

During the war I was a member of the War Industries Board, and at the time of its reorganization I was in contact with the mobilization of industry and also our mobilization of the manpower in the War Department before that. After that I was associated with Mr. Baruch, who was doing a great deal of work on this subject, and I made a rather exhaustive study of the records as far as they were then available in connection with the War Department's plans, and in connection with Mr. Baruch's testimony before the War Policies Commission.

Almost everything I have to say I have already said in connection with the testimony that you speak of and the testimony given before the Senate Committee. In a general way, I do not know that it is necessary to go through all of that again.

But there was developed in the World War a new kind of warfare that had begun to be developed probably with the defeat of Na-

poleon and the rise of the European system of the nations in arms, which really meant that in modern war a nation could not any longer afford to risk its existence on a mobilization of some comparatively small trained army or some fractional part of its resources in men, money, and materials. The theory grew as it was practiced, from that time to the Franco-Prussian war. In the beginning of the World War it was recognized that when a nation goes to war it must go with all of the strength that it has. The fact was realized in a dim way at the beginning of the World War. As the war progressed it became more and more apparent that great industrial nations at war were going to mobilize all their strength from the farthest farm in the remotest part of the country clear up to the battle line. War was recognized as an economic struggle as much as a military struggle—not only for additional production but for the management of our own economic resources and the restriction of economic resources of other countries.

I believe from what I saw of the war itself and what I have read about it since that, perhaps, the systematization of the economic factor went further toward application in this country than it did in any other country. We came into the war late. We had the benefit of the experience of other countries, and still we frittered away our time here for over a year without getting very far toward an actual economic mobilization. Toward the end it was being pretty well done and the general principles involved were being clearly recognized.

From what I have read and heard from people on the other side of the water, they believe pretty much that the system had gone further here and with greater perfection than elsewhere. I think that in the new economic planning for us in France, Great Britain, and Germany, our own system in principle, at least, has been pretty well followed. I think we developed during the war the essentials of an economic control for the purposes of war mobilization. It is true that a great many mistakes were made and a great many blind alleys were followed to an end to see that we could not get up that way any farther. The subject has been very thoroughly studied in the War Department, and the War Policies Commission went into it quite exhaustively.

Out of all this came, as I understand it, this bill. There have been a great many ideas as to how a new mobilization should be prepared for. Some people want to attempt to go into it to the ultimate detail, in the beginning. They want to write a bill to cover every possible situation that might arise. I think that is wrong on its face. Nobody knows the circumstances we shall face in any future war. The most that you can do, if you do anything in advance, in the way of actually passing a statute, is to pass one in the very broadest possible terms applying the lessons that we learned in the World War and avoiding the mistakes that we made. It is on that principle that any legislation must be enacted. I think this bill does attempt to avoid going into meticulous detail and yet set up the necessary power and authority for an organization around which to build an effective mobilization of the resources of this country for war.

I think that is all I have to say in a preliminary statement, Mr. Hill.

The CHAIRMAN. General, you have said that if we go to war today we would have to mobilize the whole economic strength of the Nation. Is it not true that in doing that the nearer you can keep to what you might term your peacetime economic set-up, the better off you are?

General JOHNSON. Yes; there is no question about that. This economic pattern is such a delicate web of complicated and inter-related causes, effects, and lines of communication, that whenever you disturb it you can not foresee the extent to which that disturbance will go to paralyze some remote part of it. The closer you can approximate your existing peacetime structure, and merely accelerate it and strengthen it, the better your bill will be. There is no doubt about that, I think.

The CHAIRMAN. And the less chance you have of losing the war, and then the better off you are at the end of the war, so far as going back into normal peacetime operations is concerned. Is not that true?

General JOHNSON. Yes, sir; that is absolutely true.

The CHAIRMAN. And if you write too many details into the bill today and tie it down too tight, you do not know how much you may handicap the operations of the administration of the war, if and when war comes?

General JOHNSON. That is true, Mr. Chairman; and, in addition to that, I think that you cannot provision the circumstance of war. During the last war it was hardly possible for anyone to provision the developments of the next 2 or 3 months. So, as to economic demands, you have to maintain yourself in the position of the greatest possible flexibility in order to meet changing situations.

Mr. MAX. General, at the time when the War Industries Board was considering this particular question I believe the question of the constitutional authority of the Congress to mobilize industry and to use private property arose. There was a report made by a committee appointed by that board that, as I remember it, was unanimous on the subject, that the Congress does have the power to mobilize industry in time of war, with the exception of the dissenting opinion of Mr. Collins, of Mississippi; I believe. Have you given any thought to the constitutional power of Congress in time of war in relation to the mobilization of industry and private property?

General JOHNSON. Yes, sir; I have given it a great deal of thought. I was not aware of the report you mention being made by the committee on the question of the constitutionality.

The CHAIRMAN. I think what Mr. May has in mind is the report of the War Policies Board.

Mr. MAX. That is the board you studied with?

General JOHNSON. Yes, sir; I participated in that study and in the legal aspects of the subject, I thought you meant during the war.

During the war counsel for the War Industries Board was Governor Ritchie, and I know that he advised Mr. Baruch that practically everything he was doing was of doubtful constitutionality. There was a great question as to whether or not a statute could be passed at that time authorizing a great deal that was being done, and it was determined that it was better not to have a statute. Governor Ritchie thought that action should be taken in accordance with the supposed war powers of the President—that it was better to do that

than to attempt to enact a statute and get into a lot of litigation. There was, and there has been right straight along, considerable doubt as to the constitutionality of the particular application of these principles that we are talking about.

Mr. MAY. But for the same reason that you say now that the statute should be general and elastic on the subject of mobilization or demobilization and carrying on the war in the use of our economic structure, you advise that the question of the details of it be omitted?

General JOHNSON. Yes, sir; because whether there are war powers not expressed in the Constitution or not, even those who advocate this indefinite residuum of Presidential power recognized that the right to exercise them is measured absolutely by the necessity existing at the time—like the common-law theory of the right of self-defense. So that, if that theory is correct—I mean the theory that the Constitution created extraordinary war powers—you ought not to attempt to determine the extent you can go in self-defense in recognition of the Constitution before the event arises.

Mr. MAY. Since the Constitution expressly conferred on the Congress the power to declare war, do you not think it gives the incidental power to do everything that is necessary to make it effective and to win the war?

General JOHNSON. My opinion is that it does, except that it may not contravene an express constitutional inhibition.

Mr. COSTELLO. General, it has been suggested several times that the only way to take the profit out of war would be to have the Government take over all the manufacture of munitions. Do you think it would be practicable to do that?

General JOHNSON. No, sir. From my experience I would say that it would be utterly impracticable.

Mr. COSTELLO. In other words, you think that the Government could not properly handle the manufacture of munitions?

General JOHNSON. My opinion is that it could not. I do not mean by that that the Government could not make munitions, but I do mean that in a great modern war, when you get into the field of munitions, and the factories necessary to move them, it involves practically our whole industrial structure, and I do not think the Government can undertake to manage that.

Mr. WILCOX. General, I understand from your opening statement that you agree with the view that has been expressed here that any bill of this character should not undertake to go into detail as to plans to be adopted in legislation, but should simply provide for it in a general way.

General JOHNSON. Yes, sir.

Mr. WILCOX. It is your opinion, however, that in peacetime, when we are normal, and can approach the subject in a normal state of mind, that we should enact some legislation of this character. Is that not true?

General JOHNSON. Yes, sir; I testified before the Senate committee that I had some misgivings about legislation in particularity. Very frankly I had in mind that if this sort of legislation were initiated it might go too far into detail to be practicable. That is, we might come out with an inflexible bill that would hamper the application of the resources of the Nation to a particular war.

A broad bill of the kind we have here could resolve a great many doubts, and have two or three effects. First, it would enable planning by the various departments of the Government to meet the situation. Then, it has another effect that I think is very important. It serves notice on the world that this country will be prepared for its defense, and to the extent that that notice is a deterrent of war, it is a very good thing.

Mr. WILCOX. Just on that point, I am very happy to hear you make that statement, General. We had a witness before us a few days ago who said that the mere enactment of this sort of law, authorizing the mobilization of the Nation in time of emergency, would tend to upset the peace of the world, that some nations would immediately begin a race of armaments simply because we had enacted a statute which would authorize us to mobilize in case of necessity. Is it not true, or is it not your opinion—and it certainly is mine—that instead of being a measure that would incite war it would actually act as a deterrent, because it would simply say to the world that the United States is prepared, in case of an emergency, to be able to mobilize?

General JOHNSON. Yes. I agree with you there. Of course, I do not see how they could pursue a race for armament any faster or more thoroughly than they are doing already. I believe that this measure proposes no aggressive step at all. It merely sets up the pattern under which this Nation would proceed in case of war. I cannot see how that would be regarded as an aggressive move by any nation. It is purely defensive.

Mr. WILCOX. Do you think if we had had this authority on our statute books in 1914, 1915, and 1916, that it might have somewhat deterred Germany in her aggressive attitude toward us, if she had known that we had already set up the machinery by which we could mobilize?

General JOHNSON. That is a rather difficult question, because the Germans were so cocky that they thought we could not even get across the sea in time. In addition to that, of course, this kind of bill could not have been written then, because nobody had the experience with this kind of thing, neither here nor in Germany. However, I do believe that if this country had taken a more aggressive attitude toward both belligerents and said, "We will fight both sides or either side that interferes with our rights on the sea", there might not have been any war or at least not for us.

Mr. WILCOX. General, of course, we do not admit that there is any possibility of any war in the future, but do you not think it is the part of wisdom that the United States keep on hand a sufficient supply of those necessary things that we do not produce ourselves, and which we might need in case of war? That we should build up a supply of those materials?

General JOHNSON. Yes, sir; I think that is especially important now, when it is very evident that a vast accumulation of some strategic materials is taking place in practically every European nation to an unprecedented extent. It is not only the copper, tin, lead, and zinc that are being bought up for actual conversion into munitions of war. Practically every one of these nations seems to be accumulating great reserves of those things. Apparently also private citizens, apprehensive of the value of money, are buying up and

storing those nondepreciating commodities in order to preserve their fortunes.

Mr. RUTHERFORD. Have you any suggestion as to how the Government could mobilize industry and compel it to take part in the movement?

General JOHNSON. Well, with the authority of this bill and the experience that we had in the War Industries Board you are prepared to do it. My suggestion would be that you just take up where we left off. Set up something like the War Industries Board and apply these provisions that you have here. Proceed on the experience that we had in the war, with some modifications of that organization—modifications that have been suggested by various people.

Mr. RUTHERFORD. Suppose industry does not want to come in, how do you compel them to come in?

General JOHNSON. Well, you have authority in this bill to choke an industry to death that does not come in. You have authority to discipline it in an economic manner with a force against which no company could survive. If it attempted to block the Government and the authority that you have in this bill, it would dry up. If with such force as you have here we cannot mobilize industry, then there is something the matter with us and not with industry.

Mr. RUTHERFORD. Suppose labor does not come in. How are you going to compel them to come in?

General JOHNSON. You cannot compel them to come in if they do not want to come in. As a matter of fact, you cannot get soldiers to fight in a war if the great mass of popular opinion in the country is not in favor of a war—not in a democracy like this. However, I do not think that American labor has ever held back—I do not think they ever will hold back in time of emergency.

Mr. RUTHERFORD. They have done their part pretty well.

General JOHNSON. Yes; and they always will. One of the most beautiful illustrations of what I have just said is the comparison between the conscription which we had during the World War and that which we had during the Civil War. You know, during the Civil War the country was torn apart, and the war was not a popular war. Both sides attempted the selective-service method. On each side it was a complete failure. The communities were not behind it. They tried at that time to do it through centralized authority. In our selective draft we decentralized power absolutely. There was no power in Washington at all. The power was vested in the local draft boards. Because the people were behind it, it was almost a complete success, and it seems to me that there is a beautiful illustration of that contrast between the Civil War and World War conscriptions.

I remember when the Draft Act was first up for consideration, there were two proposals submitted. One proposal was to invoke the Civil War system, which was a draft by centralized military authority. The other was the system which was actually put into effect through the local draft boards. A great deal of criticism was conveyed to Mr. Baker of the decentralized system that we proposed. It said "there is no power in this scheme of the Central Government here to enforce it." Mr. Baker replied: "If the force of public opinion is not behind a war you can't fight a war. If

public opinion is behind us we don't need bayonets." The people were behind the World War—Mr. Baker's idea worked beautifully. If a war is not sufficiently popular for the people to support it, you had better not go to war.

Mr. RUTHERFORD. That is right.

Mr. DORSEY. I would like to ask the general if he interprets section 3 by any means as authority to conscript labor into industry in time of war?

General JOHNSON. I am not intimately familiar with the language of this bill, but just reading it over, I think not. If it does, it is a mistake. If there is any provision in here for the drafting of labor it is a mistake.

Mr. DORSEY. Certainly this committee has no intention of doing that, but certain witnesses who have appeared before the committee apparently tried to read into that section an effort to conscript labor. Now, we have not any such idea at all, but we want to have the intent of the bill so clear that everybody will understand that.

General JOHNSON. You cannot do it, if for no other reason than that the conscription of labor to work for a private master is slavery. It is in violation of the thirteenth, fourteenth, and fifteenth amendments to the Constitution.

This happened during the war: When they first started out with the drafting of the men there were exemptions for family reasons, and also due to the system of calling men in the order that their names came out of the box. As a result of that there was a great deferred list of people whose time had not come yet. Well, as the war went on there began to be an acute shortage of labor, and there were in this deferred class a lot of idlers. Because of that situation the President issued an order stating, as to deferments, that anybody who was not working in an occupation considered necessary for the prosecution of the war would be advanced and drafted for military service immediately. That had a tremendous effect on putting slackers to work, but it did not conscript them for any particular employment. They could either go to useful work instead of sitting around when they chose—or they could get advanced to the top in the selective draft list. That has frequently been referred to as the "work or fight" provision.

The CHAIRMAN. That was just one of the things that was inevitable in a great war, was it not?

General JOHNSON. Certainly. It was inevitable. There were a lot of people content to see their neighbors marching off to risk their lives, and everybody else engaged in various civilian efforts to help win the war while they just sat and fanned themselves. Public opinion wouldn't permit it.

Mr. MAVERICK. Unfortunately, General, I was not here when you testified. I want to ask you whether you think, in view of the accumulated experience of the World War and what is known of the methods used at the time, and the fact that we already have a National Defense Act, that such a bill as this is vitally necessary to be enacted at this time?

General JOHNSON. I think it is highly advisable; yes. You say "absolutely necessary." I do not know that anything is absolutely necessary. You have a bill here which I think is a very good bill.

The question is, Shall people in so-called key industries who are found by the draft boards to be indispensable to the operation of any such industry be deferred as long as they are in that work. The exemptions for that reason during the war were very small in number. I think there were something like 156,000 in the whole country. It has been argued that since the usual draft ages are between 21 and 30, there cannot be any key men in any industry, or in any agricultural enterprise that could not be replaced by older men. I think that is not always true. I think that this kind of exemption should be left a good deal as it was under the Selective Service Act. If such men are found, as a matter of fact, to be indispensable to a certain key operation, they should be deferred as long as they are in that position, but not any longer.

MR. MAVERICK. General, under the Draft Act, after the war was over, how many people were there in the office recorded as having deserted from the Army of the United States or evaded the draft? Do you have those figures?

General JOHNSON. You mean after the draft was over how many deserters were there from the Army or from the draft?

MR. MAVERICK. From the draft.

General JOHNSON. This is subject to correction, as I am giving it from memory. I do not have an accurate memory for figures, but my recollection is that there were about 35,000 who were on the rolls, indicated as what were called draft deserters. That is, they had not appeared for examination. Later on it was found that a large block of those people were already in the service, some of them overseas in the Army, some in the Navy, and in various other services where they did not get their notifications. Only in insignificant numbers were there any such cases not finally cleared.

MR. MAVERICK. In other words, it was a negligible number?

General JOHNSON. Yes; a negligible number. It looked pretty bad at one time, because we tried to do everything we could to be sure that men who had registered and did not appear for service were in the Army. But it was pretty hard to follow it, and at one time it looked as though there was a very large number of so-called draft deserters. But I do know this in a general way that draft desertion turned out to be negligible after all these people had been traced to their service.

MR. MAVERICK. Roughly speaking, how many strictly military deserters were there from the Army and the Navy during the war?

General JOHNSON. I do not know, but that also was a very small number. It did not amount to anything. But that was not my job, and I do not know exactly what that number was.

MR. PACE. I have one question I should like to ask the General, and I will probably have to ask for specific illustrations. In your opening statement, General, you said that past experience had shown that when you go to war you must go to war within your resources or means, and then, in answer to a question by the chairman, you stated that conditions should be as near like peace conditions as possible. Frankly, the two conditions are so unlike that I cannot reconcile them. I would like it if you would, under the terms of this bill, take, for illustration, the steel industry. What is your idea of what should happen under this bill upon the declaration of war,

keeping in mind that this bill is to take the profits out of war, and yet, at the same time, that we want to win the war? What should be done to the steel industry or any other industry that is essential to war?

General JOHNSON. You have selected about the best example you could select, because that is the basic war material.

Mr. PAGE. Yes. That is the reason I have selected it.

General JOHNSON. The first thing that happens is that your War Industries Board is set up. The first thing in economic planning a nation requires to know is how much steel you are going to need. How much steel are you going to need for the Navy; for the military program, and how much for the civilian population? We know more about that now. During the World War nobody knew that. It was in utter confusion. As a matter of fact, when I went from the Draft over to the General Staff, I went to each one of the great departments and asked, "How many men are you preparing for?" It was the literal truth that no two departments were preparing for the same number, and no one knew the right number. There was that much confusion about how much the requirements, for example, for steel were. You could take the requirements in steel for the equipment of an infantry division, and you could break it down into so many pounds of steel. But steel was used in the making of barbed wire, in ship plates and in building. Steel was necessary for the manufacturer of various types of projectiles. It was almost impossible at the beginning to get any idea about it at all. Now, those things are being worked out as well as possible and we will have a better idea about that, but not a perfect idea.

At best, upon looking at your steel requirements you will find that they are far beyond your proved capacity for production.

You then will have to begin to impose restrictions on nonessential uses of steel. During the war, in order to conserve the supply of steel, they took the steel stays out of women's corsets—women wore them then—they are more flexible now. We applied every possible form of conservation—doing everything possible to conserve the supply of steel, to restrict the demand for steel for nonmilitary purposes, and yet not to interfere with the civilian population any more than we had to.

Now, when you have gotten your requirements out, you call the steel industry in through the American Iron and Steel Institute and say, "These are the things that you are expected to do." Enforcement of that was handled by a system of priorities. That is the industry was told that essential war requirements must be supplied first, and if they did not have any steel left over for other orders, commercial or otherwise, that was just too bad for the "nonessential" or "less essential" producers.

The example you have given is a good one, because here trouble over governmental control actually happened. All of these big steel companies having automobile customers, who were beginning to be pinched, and could not get steel for pleasure automobiles, began to bootleg a little steel here and there. It became a real problem, especially as the demand for steel grew, as the war program advanced. They were called to account finally. This is all on the record. Mr. Baruch finally told Judge Gary, "It is just too bad, but

if you cannot comply with the regulations the Government will have to take over your companies and operate them." He could have done several other things, but that happened to be sufficient in that case, and from that time on, we had very little trouble with the rationing of steel to the various demands that we had. But, it would have been perfectly easy to regulate a steel plant just like that. We had control over power and fuel and transportation. We could have cut off any steel company in the United States from operation almost overnight. If that had not worked, we could have taken it over and sent our own men in to operate it.

Mr. PACE. Could you have done it constitutionally?

General JOHNSON. Unquestionably.

Mr. PACE. Then you do not think a constitutional amendment is necessary to invoke universal service in time of war; that is, as related to all industries and all manufacturing establishments?

General JOHNSON. Along the lines I have talked about. When I say take a plant over, I mean to step in and commandeer that plant. There has never been any question about that as a proper function of the Government in time of war. You will have to pay for it. But you can take it over. You can take over any property in this country by condemnation in time of war.

Mr. PACE. Going back to the steel illustration, what about the profit feature of it now? That is what this bill is for.

General JOHNSON. During the World War the profit end was not properly handled. I won't say it could have been better handled, because exaggerated prices and profits happened before we got into the war. In that connection, it is interesting to note that something like that is happening today. At that time the price structure had gone clear out of rhyme or reason. Prices had advanced to unheard of levels before we entered the war. When we moved in that was the situation. Not only were prices clear out of line, but extravagant prices resulted in extravagant profits before we got into the war. Of course, the volume of business of these companies had grown so that their profits were growing at a tremendous rate quite apart from price. The problem came up, "What are we going to do here?" If we go in here and slice the price, we of necessity stop production of all high-cost producers. We knew that we must have all production whether high cost or low cost. So we determined that we would attempt to control prices and also recapture extravagant profits by so-called excess-profits taxes. As a matter of fact, while we did take a large share of war profits, a great many of the companies made perfectly scandalous profits. There is no question about that.

What about that next time? I believe in the provision that you have in here for taking 95 percent of the income above the previous 3-year average—but I would take 100 percent of all income exceeding the average for the pre-war years. However, if you had extravagant profits arising from a condition similar to that in the World War, for the 3 years previous, you might want to go further than that. As a war-tax provision I would restrict everybody to the pre-war profits by taking any excess away in taxes. I also would add to the tax burden just as much as the traffic would stand. That is, as heavy a tax as you could impose without arriving under the principle of diminishing returns, at less revenue.

Mr. MAY. May I ask a question, Mr. Chairman?

The CHAIRMAN. Will the gentleman yield?

Mr. PACE. Yes.

Mr. MAY. The situation is simply this: That during the World War the War Industries Board had to forge its way, and do things without constitutional authority for it, perhaps, whereas this bill will provide that statutory authority.

General JOHNSON. The War Industries Board did it without statutory authority.

The CHAIRMAN. The War Industries Board really did it on a letter from the President of the United States.

General JOHNSON. That is right.

Mr. MAY. As a member of that Board, going back to the question of the cooperative efforts of industry generally in this country, what was the attitude of our general industry during the World War? Were the industries antagonistic or did they cooperate?

General JOHNSON. No; they were not at all antagonistic. Everybody got into a sort of a spirit of exaltation, but the exaltation at the same time did not take some of them too far away from first base. I hate to say this—I do not want it to be considered as of general application—because there were more exceptions than adherents, because generally speaking, industry came forward as wholeheartedly as you could expect them to. But it is just like the N. R. A. In any group of people where you expect cooperation there is always about 10 percent who won't play the game. They will take advantage of the other fellow's willingness. That 10 percent can make it impossible for the other 90 percent to cooperate. In order to handle that 10 percent I think you have always got to have things which are a little more than persuasive. As President Wilson said, "For these cowards you have got to show them the club behind the door."

Mr. MAY. In view of our definite war policies, that we are always on the defensive, do you not think there would be quite an incentive for industry in this country to back up a war of defense in view of the fact that if we lost the war there would be heavy indemnities that must be paid by taxation, and taxes falling on them would be a worse burden than if they turned their profits over to the Government.

General JOHNSON. Yes; except for this chiseling 10 percent, almost all industry in every war we have ever had has been willing to do its part.

Mr. MAY. On this question of having to grope around in the dark to find out how much steel you needed for those various needs, is it not a fact that the War Department has its fingers right on every industry and knows exactly how much they are equipped to furnish, and what they can do?

General JOHNSON. Yes; they have tried to do that, but they are far from perfection.

Mr. MAY. Yes; but they are very much further advanced now than they were at the beginning of the last war?

General JOHNSON. Oh, yes; very much further advanced. It was all a blank at the beginning of the World War. Now they have studied that thing for 10 years or more. They have done the best under the circumstances that they can do, but at the same time it is very far from perfect.

Mr. MAVERICK. As a matter of fact, General, do you not think that the courts, the industries, and the steel companies like to cooperate better in war than they do in peacetime?

General JOHNSON. Yes; there is no doubt about that.

Mr. MAVERICK. I think the tendency of the courts is to be more liberal with the Government.

General JOHNSON. Yes; unquestionably. They have practically said that. During the World War, notwithstanding many decisions of the Supreme Court against statutory provisions, we did those things. We took over the railroad lines and the telephone companies, on almost no authority. That was sustained. We very much restricted the freedom of the press, and that was sustained. We had wartime prohibition despite repeated decisions and future constitutional inhibitions on peacetime prohibition. The courts go right along to give the country the power it needs for self defense. I think the courts will go to the extent of permitting the Government to do anything that is necessary to win a war, as long as they do not transgress specific constitutional inhibitions.

Mr. MAVERICK. Do you think they would do that with freedom of speech and of the press?

General JOHNSON. They did it.

Mr. MAVERICK. That was more or less against a specific inhibition of the Constitution, was it not?

General JOHNSON. I have forgotten the exact language of the court on that. I think they said that was a question of degree.

Mr. MAVERICK. The main thing I want to bring out is this: They are quite liberal in wartime, but they have not been quite as liberal in minimum wages since then?

General JOHNSON. No, sir; nothing like it.

Mr. MAVERICK. That is my point.

Mr. CLASON. If we are going to draw a bill prohibiting profiteering, where would you draw the line as to what is a fair return on investment, and what is not?

General JOHNSON. I would not attempt to do it in that way. I think there are two ways to do it. Two suggestions have been advanced. One is to take the profits out of war. As I understand it, that means to take the profits that are due to war. The other one seems to be, in a word, to abolish the profit system in the United States. I think that is bad economics and also bad from the standpoint of the political and social system involved. I think that war is a bad time to apply the principles of communism in this country. I think that taking the profit out of war means taking the excess profits due to war.

Mr. CLASON. Suppose that you are starting off with a new company from scratch, what provision would you allow them to have for making fair profits? All their profits are going to be war profits, because they are just starting out.

General JOHNSON. This provides for the 3-year average of pre-war profits. You are talking about a company beginning at the time the war starts, one that has had no previous profits?

Mr. CLASON. Yes.

General JOHNSON. You would have to provide for that by some rule referring to companies, in the same industry in similar circum-

stances, restricting their profits to that. You are quite right. There is a loophole in this bill as at present drawn.

Mr. CLASON. Also, if that company had been in the red for 3 years prior to the war, you would not expect them to turn over all of their profits made during the war?

General JOHNSON. That is right, but you would have excess profits, also. In the pre-war period before the World War some of these companies made a lot more money before we got into the war than they did afterwards.

Mr. CLASON. Does not this finally get down to the point where you have to draw a tax bill in order to make this effective?

General JOHNSON. No, I do not see how you can sit down here in advance of the advent of war with no knowledge of what you are up against, and try to draw a complete revenue measure for application in time of war.

Mr. CLASON. Then, would you say section 9 ought to be left out of the bill entirely?

General JOHNSON. No. I would attempt to provision such cases as you have so wisely mentioned and cover them by a provision.

Mr. CLASON. You think you can do that now?

General JOHNSON. Yes, but I would not want to do it without thinking about it. However, it does not seem intrinsically difficult to me.

Mr. CLASON. You would not make an entirely new tax bill. You would just lay down principles?

General JOHNSON. No. I would make as simple a tax bill as I could. The idea of drawing a complete new revenue bill which results in a return on capital of 2½ percent, and limiting income to \$7,500 or \$6,500, I think is a serious error.

The CHAIRMAN. You say, though, General, fundamentally the problem involved is whether when we go into a war we shall keep our economic system that we have had in this country for 150 years, and under which we have won all our wars, and under which we have prospered and grown great through that period of time, or whether because we are going to war we will make a fundamental revolutionary change in our whole economic system?

General JOHNSON. Very earnestly, I think that would be a terrible mistake.

The CHAIRMAN. It would be a terrible mistake in every way, both from the standpoint of winning the war, because you disrupt everything as it is now—

General JOHNSON (interposing). Yes, sir.

The CHAIRMAN. And then you would perhaps get your economic system in such a condition that you could never return to the present system.

General JOHNSON. Yes, sir.

Mr. MAVERICK. General, do you suppose if, during the war, we had had what amounted to an N. R. A. or an Agricultural Adjustment Act the courts would have found them constitutional?

General JOHNSON. If you are asking me for an opinion, I think if the N. R. A. had gone up before the Supreme Court in the first 6 months of its operation it would have been held constitutional unanimously.

Mr. ANDERSON. During the last World War, did not everyone come under the head of some sort of military ranking, a soldier of industry?

General JOHNSON. No; we did not attempt to do that.

Mr. ANDERSON. During the World War the Supreme Court was more liberal as to the construction of law?

General JOHNSON. Yes; very much more liberal.

Mr. ANDERSON. At that time they were better soldiers than they were during the war of the depression; is that not right?

General JOHNSON. They agreed with the strategy better during the World War.

The CHAIRMAN. They were a little more in accord with G. H. Q.?

General JOHNSON. That is right.

The CHAIRMAN. Is not that the idea?

General JOHNSON. That is the way it seems to me.

The CHAIRMAN. Are there any further questions, gentlemen? If not, General, we certainly want to thank you. You made a very fine and a very interesting statement.

General JOHNSON. Thank you very much.

The CHAIRMAN. The full committee will now adjourn, and Mr. Faddis' subcommittee will continue with its session.

(Thereupon, at 11:30 a. m., the committee adjourned.)