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ALLOCATION OF GRAIN FOR PRODUCTION OF ETHYL ALCOHOL

HEARINGS

BEFORE THE

JOINT COMMITTEE ON THE ECONOMIC REPORT
CONGRESS OF THE UNITED STATES

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PURSUANT TO

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ALLOCATION OF GRAIN FOR PRODUCTION OF ETHYL ALCOHOL

THURSDAY, FEBRUARY 5, 1948

UNITED STATES SENATE,
GRAIN ALLOCATIONS SUBCOMMITTEE OF THE
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The subcommittees met, pursuant to call, at 10 a. m., in the District of Columbia Committee room, United States Capitol, Senator Ralph E. Flanders presiding.

Present: Senators Flanders (chairman of the subcommittee), Watkins, and Sparkman.

Representatives George H. Bender, Christian A. Herter, and Edward J. Hart.

Present from the Senate Banking and Currency Subcommittee on Controls of Meat and Alcoholic Beverages: Senator Buck.

Also present: Senator Cooper.

Senator FLANDERS. The hearing will come to order.

This is primarily a hearing held by a subcommittee of the Committee on the Economic Report, which is required by the terms of the so-called anti-inflation bill of the extra session of Congress, held last November and December, to consider the Presidential message, which is set up in the terms of section 6 of that bill.

Such a message has been received, and the chairman of the joint committee has appointed the subcommittee to consider this message.

The subject of the message is the allocation of grain to distillers.

Besides the members appointed to the subcommittee of the Joint Committee, by arrangement with Chairman Tobey of the Senate Banking and Currency Committee, the subcommittee of that committee, to which the same subject will later be assigned, is sitting with us, so that this is a joint session of the subcommittee of the Joint Committee on the Economic Report, and the subcommittee of the Banking and Currency Committee.

We are then considering the President's message on grain allocation, and our first witness this morning is Mr. Charles F. Brannan, Assistant Secretary of Agriculture, who would be charged with allocation in the event that it is authorized by the Congress.

Mr. Brannan, you have a written statement here and if you wish to, you may read it, or handle it as you please.

STATEMENT OF CHARLES F. BRANNAN, ASSISTANT SECRETARY OF AGRICULTURE, ACCOMPANIED BY JACOB M. SCHAFER, DEPUTY ADMINISTRATOR, GRAIN CONSERVATION ORDER ALLOCATING GRAIN TO DISTILLERS, GRAIN BRANCH; REED K. POND, GRAIN BRANCH PRODUCTION AND MARKETING ADMINISTRATION, UNITED STATES DEPARTMENT OF AGRICULTURE; AND HAROLD A. SERR, BUREAU OF INTERNAL REVENUE, ALCOHOL TAX UNIT, TREASURY DEPARTMENT, WASHINGTON, D. C.

Mr. BRANNAN. Senator Flanders and gentlemen, the statement is of such a character that if the committee can afford the time to go through it sentence by sentence, and word by word, I think it would be helpful. Almost every paragraph and every general subject has some statistics and figures in it which would be rather difficult to give in an offhand sort of a way.

Your invitation to come here today gives the Department of Agriculture a welcome opportunity to reaffirm and enlarge upon its position on the use of grain in the production of distilled spirits or neutral spirits for consumption as alcoholic beverages. The privilege of setting forth the facts for the committee is one we appreciate. I am sure also that we can be helpful to the committee in threading its way through scores of assertions concerning the subject.

If I had come here in a mood to quarrel with distillers, it might be understandable to some who have followed the issue of distillery controls in the public press. You may be sure, however, that I am not here to attack the industry. Nevertheless I would fail in my obligation to the committee if I neglected to point out certain fallacies which some elements of the industry have presented as facts.

It is my purpose to show you, insofar as I can, what distillery controls mean in our fight against inflation here at home and in our struggle to ease hunger abroad. That is my intention. It sums up to a statement of what distillery controls mean in our food and feed conservation program—a program which Congress has authorized and directed us to undertake.

What happens to our stock of food and feed touches the fate and the fortune of every American. If we are wasteful in our use of our food and feed resources, the political stability of the world may be placed in jeopardy.

Senator FLANDERS. In your preceding paragraph, you speak of the program which Congress has "authorized and directed us to undertake." You are referring to programs which still have authorization, are you; the previous allocation of grain program has of course expired.

Mr. BRANNAN. That is correct, sir.

Senator FLANDERS. There is other legislation which is still in force, I take it.

Mr. BRANNAN. Yes, Senator, and I refer specifically to the anti-inflation bill, Public 395, in which we are directed to seek as much grain conservation as possible at all possible sources.

The President of the United States, in his message last week to the Congress, when he asked for continued authority to control distillers' use of grain, pointed out that shortages of grain jeopardize the

national security and welfare of the United States. There is nothing that I can or should add to that statement.

My discussion today will deal primarily with domestic problems. Therefore, I should point out that the wasteful use of grain can only mean higher prices for the foods we eat here at home. Perhaps I should state it this way: We cannot hope to control inflation in food if we permit grain to be diverted to nonessential use. The paramount domestic problem facing the country today is to control the inflationary rise in food prices, particularly meat. Because feed is the source of the large part of our meat and livestock products, the supply of feed determines how much of these food products can come to our tables. No matter what the industry may say about the feed value of its residues, the fact is that at least two-thirds of the grain that goes into distilleries is lost to food consumption.

The less food we have, the more we must pay for what we eat. This is the simplest explanation of the inflationary rise in the prices that already has carried meat beyond the purchasing power of many American families. The choice before us today is whether we can allow distilling to add to the inflation that is constantly pushing prices upward.

Senator FLANDERS. Perhaps we are not out of this meat thing yet.

Senator BUCK. I see we are getting back into it.

May I ask the Secretary, I see he uses the words "wasteful use of grain," do you consider grain used for the distillery business wasted?

Mr. BRANNAN. Above certain levels, I think it is wasted in the light of the present domestic and world situation, sir.

Senator BUCK. What is the level that you set?

Mr. BRANNAN. The level which we have suggested is 2,500,000 bushels per month for the whole industry.

Senator BUCK. Is it not true that this country is exporting a lot of grain that is used in other countries for distilling purposes?

Mr. BRANNAN. It is true that some grain goes out of this country, corn, for distilling purposes in Canada, and I intend to touch upon that.

Senator BUCK. Why do we allow that? Why do you permit that?

Mr. BRANNAN. That is permissible under trade arrangements with Canada.

Senator FLANDERS. You take that up later in detail?

Mr. BRANNAN. I do, sir.

Senator BUCK. I think you ought to have it taken up in detail and pretty well explained, because I do not see why we should be helping everybody else in the world except our own people at home where we should help them. Why should we help Canadian distilleries instead of our own people?

Mr. BRANNAN. We are not helping the Canadian distilleries.

Senator BUCK. You are if you are shipping grain up there, and do not give it to our people.

Mr. BRANNAN. All right, sir, if this is the appropriate place to take it up, I would like to say that the amount of corn which is exported to Canada, for distillery purposes, runs about 3,600,000 bushels a year, or did in 1947. At the same time the Canadian distilleries were limited, were completely banned in their use of wheat, except wheat

which was not usable for human consumption, and thereby released approximately 3,000,000 bushels of wheat for export programs.

In other words, by about some three plus million bushels of corn going into Canada, we released about 3,000,000 bushels of wheat for export by the Canadian Government.

Senator BUCK. Could not the Canadian Government have done that themselves without our shipping the corn? They could have said to their distillers just as we are prepared to say to our, "You can't have any."

Mr. BRANNAN. They did say that.

Senator BUCK. Yes, but then they came to us and got 3½ million bushels of corn to keep their distilleries open, is that correct?

Mr. BRANNAN. That is correct.

Senator BUCK. We permit that corn to go out which could be used here at home in our own distilleries to keep them running.

Mr. BRANNAN. Well, Senator Buck, some of these distilleries which we are referring to here in general terms are American owned as well as Canadian owned distilleries and they can tell us this afternoon when they come on the stand just how much was interchanged between their various plants.

Senator BUCK. I have no brief for the distillers in this country, but I do not see why our own people should not get the first consideration.

Mr. BRANNAN. You are aware that wheat and rye is a much preferable export commodity for feeding in European countries. The Canadians did ban the use of rye later on in 1947, and banned the use of wheat early in 1947, and we did allow the exportation of corn, approximately 3,600,000 bushels for distilling purposes.

Senator SPARKMAN. Was that a part of the program of banning the use in Canada; in other words, was there an understanding between Canada and the United States that if we would let them have 3,600,000 bushels of corn, that they would ban the use of wheat, and that would result in the release of 3,000,000 bushels of wheat for export?

Mr. BRANNAN. Senator Sparkman, I am not aware that there were any formal arrangements between the Canadian Government and the United States Government with respect to the interchange and the use of grains. As a matter of fact, the export of corn into Canada, or grains into Canada, is a matter of general reciprocal arrangements between our two countries, and I think the decision on the part of the Canadians to make their wheat available and use what corn they could acquire from us was primarily a decision of their own.

Senator FLANDERS. Was that a definite decision made at any particular time of the year and of a contractual nature for the whole year?

Mr. BRANNAN. The decision to ban the use of all wheat was made on March 7.

Senator FLANDERS. That was purely a Canadian decision?

Mr. BRANNAN. That was a Canadian decision.

Senator FLANDERS. Was a contractual arrangement made for this amount of corn with the Canadian Government?

Mr. BRANNAN. Not to my knowledge, sir.

Senator FLANDERS. What was the arrangement whereby you shipped a certain amount? Was that under allocation by the Department, or did it just happen naturally?

Mr. BRANNAN. It is part of the normal trade relationship between Canada and the United States.

Senator FLANDERS. It was done without governmental control or governmental encouragement on the part of either government?

Mr. BRANNAN. I understand, Senator Flanders, we do not have export controls with respect to Canada, that they exercise certain import controls, and sometimes exercise those import controls at our request, but I do not know that a specific request has been made in this particular instance.

Senator FLANDERS. Do we, then, have no authority to control the export of grain into Canada?

Mr. BRANNAN. That is my understanding, Senator.

Senator FLANDERS. That we have no authority to control the export of grain to Canada?

Mr. BRANNAN. That is my understanding, but that is a matter about which perhaps our folks of the State Department might speak better than I. My impression is that we do not.

Senator FLANDERS. Senator Cooper, do you want to state your understanding?

Senator COOPER. Mr. Brannan, is it not true that, under the Export Control Act, which was just extended in a special session of Congress, the President has full power to control exports, all exports, to any country, and is it not true that the power to control the export of grains is actually delegated to the Secretary of Agriculture?

Mr. BRANNAN. I think that is probably correct, sir.

Senator FLANDERS. The question is whether you do have the power to control the export of grain to Canada. That is the question.

Senator WATKINS. Or any other country, for that matter.

Mr. BRANNAN. We do control it to every other country, and, as far as I understand it, your statement is correct, Senator Cooper.

Senator FLANDERS. But no controls have been exercised so far as export to Canada is concerned.

Mr. BRANNAN. That is my understanding also.

Senator BUCK. Some of this grain that has gone to England—has not that been run through the distilleries?

Mr. BRANNAN. Insofar as we know no grain that has gone from the United States to England has gone through the distilleries and we do not believe that any has gone through the distilleries. As a matter of fact, very little, if any, grain has moved from the United States to England.

Senator BUCK. What do they operate on over there?

Mr. BRANNAN. They operate on grains which they procure from Canada, from Argentina, and from Australia.

Both foodwise, feedwise, and for any other industrial uses.

Senator FLANDERS. To what extent have they limited the distilleries?

Mr. BRANNAN. We also come to that a little later on.

Senator FLANDERS. Suppose you go on, and we will come to these things in their order.

Mr. BRANNAN. The problem we are dealing with arises from our short supply of feed grains. Because distillers rely mostly on corn, the result is that farmers and distillers are competing today for a short-feed supply. This means, in effect, that consumers of meat, poultry, eggs, and dairy products also are in competition with distillers. The chief difference is this: Farmers and consumers are competing on the basis of today's needs, while the distillers are competing, in part at least, on the basis of needs that are several years away.

Our corn crop last year came out to only 2.4 billion bushels, and our total supply for the current crop year amounted to 2.7 billion bushels. In the previous year, the supply was 3.4 billion bushels. Thus we are working against a supply that is about 21 percent less than last year and far less than we could use. This is the basic reason why it is necessary to conserve corn wherever we can.

Distillery use of grain is somewhat elastic, as industry representatives undoubtedly can assure you. The industry, moreover, has demonstrated a remarkable capacity for grain consumption. The use can shoot up high on very short notice. I can give you a few examples. In January 1945, for instance, distilleries used 15,000,000 bushels largely for beverage alcohol. As recently as last October, the industry used 8.3 million bushels in 25 days, and this, mind you, with only two-thirds of the plants in operation. These figures are an index to the danger to our grain supply in allowing distilleries to run without control.

Representative HART. What do they use over the course of a year? What is the average?

Mr. BRANNAN. About 59,000,000 bushels, fiscal year 1947.

Senator FLANDERS. Was that use of grain, last year's use of grain, larger than average prewar due to any catching-up process? What would you consider an average prewar use of grain?

Mr. BRANNAN. About 40,000,000 bushels.

Representative HERTER. Does that figure include making alcohol for industrial as well as beverage purposes?

Mr. BRANNAN. We are talking about beverage alcohol now.

Representative HERTER. Does that include both?

Mr. BRANNAN. That 59,000,000 that I gave you would include some industrial alcohol, but not very much of it was used for that purpose, about 1 percent or so.

Representative HERTER. About 7,000,000.

Mr. BRANNAN. Not 7,000,000 bushels. That would be gallons.

Representative HERTER. Seven million gallons; yes.

Mr. BRANNAN. About a million and a half bushels.

Senator FLANDERS. You may proceed.

Mr. BRANNAN. In fact, current reports indicate that the industry has stepped up its production very rapidly so far this month. Based on February 2 operations, grain was disappearing into distilleries at the rate of 5,800,000 bushels a month. This is more than twice the amount of the monthly quota we have had in mind. Consumption at this rate would easily nullify all of the conservation achieved in the last control period.

From the foregoing, it is apparent that we are not here without reason. The President's proposal, in fact, is in compliance with the provisions of Public Law 395. Section 6 (a) says that

whenever the President shall determine that there is or threatens to be a critical shortage of any * * * commodity * * * which jeopardized the * * * national security or welfare and that there is no prospect that such critical shortage may soon be remedied by an increase in the available supply without additional governmental action and that the situation cannot be solved by voluntary agreement under the provisions of this act, he may prepare proposed measures for conserving such * * * commodity * * * which he shall submit to the Congress * * *

I am sure that this committee is familiar with the background of this request for allocation authority; therefore, I will only call to your

attention that the final meeting of the Distillers Coordinating Committee failed on December 9 to work out a program to succeed the voluntary liquor holiday. This holiday began October 26 and terminated on December 24. It became apparent at these meetings, to put it in the words of a member of the industry, that the industry, as between its factions, could "agree only to disagree."

However, on December 17, the Department again met with distillers in the hope of breaking the existing deadlock. Again the effort to reach a voluntary agreement proved fruitless.

It was then that Congress, in section 4 (b) of Public Law 395, by continuing war-powers authority, enabled the Department to conserve grain by allocating it for the production of distilled or neutral spirits for beverage purposes up to January 31.

We hope it is clear to everyone that at the present time the executive branch has no authority to allocate grain to distilling plants.

While there have been no formal meetings with the industry since the allocation authority was granted during January while controls were in effect, numerous representations were made by representatives of distillers to officials of the Department which made it apparent that the industry is still divided and that no basis exists for an acceptable voluntary agreement.

Newspaper advertisements as well as testimony before the House Banking and Currency Committee, as recently as the last week in January, indicate clearly that there are still sharp divisions of opinion within the industry—some supporting the Department's proposed program and others strongly dissenting. In view of these differences, we trust the Congress will act without delay, thus saving the industry the expense of attending more futile meetings and hastening the time when the conservation of grain in the liquor industry can be resumed.

While the President's message sets forth the grain-allocation proposals as required by section 6 (a), a brief résumé at this point may be appropriate.

We are asking that the language of Public Law 395 be changed from a reference to "the use of grain for the production of distilled or neutral spirits for beverage purposes" to "the use of grain for the production of ethyl alcohol from grain."

This seeks no greater field of control. The broader language merely recognizes that the same manufacturing process is required in connection with the production of distilled or neutral spirits for beverage purposes as for some kinds of industrial alcohol made in the same distilleries. We want to make sure that alcohol produced from grain for industrial uses cannot be diverted into beverage use.

The authority we seek is to prevent the unrestricted use of grain in distilling until the corn harvest has set our next year's grain position. The proposed allocation period is from the date of enactment through October 31, when our corn position will be defined.

If given the allocation powers, we propose to allocate grain on what we believe is the generous amount of 2,500,000 bushels per month. Month-to-month allocations would, of course, be based on available supplies and essential requirements. The allocation to each individual distillery will be based on a formula reflecting both historical use and plant capacity, with a specific minimum to minimize hardships. This formula is set forth in legal terms and in complete detail in the copy of the order which accompanies the Presi-

dent's message. This is the order under which allocations were carried out in January.

With two differences, the proposed program would be essentially that followed during the month of January. The January order did not attempt to limit inventories, because the authority to allocate grain for distilling was only for about a month, since it is the practice of the industry to make purchases of grain weeks ahead. In the allocation program, which will operate until new corn stocks become available, grain inventory limits must be established unless the benefit of the allocation program is to be nullified by unrestricted buying.

The other new feature would be to prohibit transfers of grain between plants owned by the same distilling company. This merely recognizes that it is the common practice of the distillery industry to concentrate its production in a few plants and close others entirely. To permit this obviously would create distribution dislocations and, more importantly, create unwarranted unemployment in the areas subjected to a complete shut-down under an order which seeks only partial and equitable restriction by each operating plant.

Senator FLANDERS. Going back to that amount of grain which was allocated, the 2,500,000 bushels a month, that is 30,000,000 a year, and, on the basis of the figures given earlier, that is 50 percent of the maximum capacity of 1947, and it is 75 percent of what was given us as an average use of grain, so that in speaking of it as a generous allocation, if you are going to allocate at all, I should say that was a generous allocation on the basis of those figures.

Representative HERTER. Might I add there, have you not some technical difficulties in the industry which require an operation so that the per-month allocation cannot be spread out evenly throughout the whole year? That is a seasonal operation.

Mr. BRANNAN. The seasonal operation, it is my understanding, has been geared to the crop-production cycles more than anything else, but there is no basic reason, as I understand the industry, and I certainly am not an expert about the distilling business, which requires any particular adherence to the seasonal pattern.

Representative HERTER. I just happened to notice some figures on production, that it is much higher in the winter than in the summer months. I was wondering if there was some reason for that.

Mr. BRANNAN. Someone from the industry probably can explain it better than I, but I suspect it is because the corn crop begins to come in in the early winter months.

Senator FLANDERS. It may perhaps be due to price changes as between the immediate harvest period and later purchases.

Mr. BRANNAN. The formula suggested for the allocation of the limited amount of grain available for distilling is based upon the historical use of grain for this purpose and the capacity of the distilleries for the use of grain.

The distilling industry, of course, is made up of diversified operations. Some in the industry who sell to consumers do not produce any whisky themselves. Others produce some whisky but sell quantities in the form of bottled goods in excess of their production. Still others produce whisky but make no sales in the form of packaged goods to consumers. Based upon our experience in previous control programs, it was determined that this formula was the most efficient method of channeling the supply of grain to those who normally use grain for the

production of whisky and neutral spirits. This formula was the subject of a suit in the District Court of the District of Columbia in which the court in its decision, rendered January 30, stated that this formula was an inherently fair and equitable one. But, however fair or equitable, it is obvious that no plan can be devised which will suit everyone.

I am deviating slightly with respect to the next two and a half paragraphs. At least one distillery has attempted to create the impression that we are seeking to conserve grain in this country while we are at the same time exporting grain to other countries for unlimited production of liquor. That is not the fact. Except for the grain which this country exports to Canada and other Western Hemisphere countries, our grain exports are made solely for use as food and seed. Importing countries, in fact, may not use grain from the United States for feed, much less for the production of alcoholic beverages.

Such exports of grain are made pursuant to the recommended allocations of the International Emergency Food Council, which has been following this practice since 1946. Approximately 8,000,000 bushels of corn were exported from the United States to Canada during the calendar year 1947. We are advised by the Canadian Embassy that 4,350,000 bushels of that corn was used for food, that 3,529,000 bushels was used by Canadian distillers.

Since March 17, 1947, the Canadian Government has banned the use of wheat by distillers, except such wheat as is unfit for human consumption. The reduction in the use of wheat is forcibly demonstrated by the following figures:

In 1945, they used 6,007,870 bushels; in 1946, 3,222,660 bushels; in 1947, for 11-month period, they used 242,374 bushels.

In short, the 3,000,000 plus bushels of corn exported to Canada during 1947 released approximately 3,000,000 bushels of wheat for export to Europe.

Canada has also prohibited, as of November 7, 1947, the importation of rye, and during the year 1947 decreased its use of rye distilleries.

Exactly how much grain is used in distilling, we do not know. But we do know that Canadian distillers used a total of less than 6,000,000 bushels of all grain last year, including domestic and imported supplies. Of this 6,000,000 bushels, a third was grains other than corn. Therefore, it follows that only a relatively small amount of the 8,000,000 bushels of United States corn that went to Canada last year could have been used in the production of distilled spirits.

Some distillers operate on both sides of the border. Hence, they may know the extent to which grain exported to Canada is being used for liquor production on that side of the line. The committee, of course, could make inquiries along this line of the members of the industry who will appear before this committee during its consideration of the bill. The committee might find it worth while to ask specifically about the movement of grain across the border by distillers with plants in both countries. Perhaps we should consider the use of such grain in computing company plant quotas.

And, before we leave this point, I would like to point out that during the war emergency, when this country controlled the use of grains by distillers, the Canadian Government likewise limited the use of grain by distillers. On the basis of this experience, we might reasonably

expect now that limitation on the use of grain by distillers in this country would be followed by similar action in Canada.

Imports of whisky seem to trouble the industry. Various distillers belabor the point that imports would flow in while they would operate on a curtailed supply of grain. My purpose here is only to state the facts. In the first 11 months of 1947, whisky imports amounted to less than 7 percent of the quantity of the whisky bottled for domestic consumption during the same period. About 90 percent of these exports, which ran to a total of 8.5 million tax gallons, came from Canada and the United Kingdom. And it should be noted that we ship no grain to the United Kingdom.

In this connection, it is interesting to note that the use of grain for the production of Scotch in the United Kingdom is now less than 40 percent of prewar use, according to private sources. The imports from these countries came here largely to build up dollar balances so that both countries could continue to buy American goods, including farm products. I would like to point out that all the imports for the 11 months were the equivalent of only 1,700,000 bushels of grain, which is much less than 1 month's quota for United States distilleries under our proposed control.

Representative HART. Do you have any figures regarding the importation of foreign beer?

Mr. BRANNON. We do have such figures. We have not brought them here today, because we thought the distilleries were primarily concerned.

Representative HART. It enters into the question of the use of grain, does it not, for beverage purposes?

Mr. BRANNAN. It does, sir, and again may I recall that if beer comes in from England or Canada—I mean England or the European Continent—it is not made with any grain exported from this country, which I think is one of the significant points in regard to that.

The objections to curtailing the use of grains in distilling range far afield, indeed. We are told, for instance, that the resulting feed residue from distilling has an animal feed value ranging from 45 to more than 100 percent of the original product. The fact is that less than one-third of the original feed value remains in the residue. We agree, however, that the distilling residue is a welcome source of high-protein feed, especially when high-protein feeds are in short supply. However, we insist that two-thirds of all grain used at distilleries is lost for feed purposes, even though the residues are recovered. Therefore, we cannot agree that it is necessary to run distilleries to maintain our feed supply. It has also been maintained that distillery feeds are a source of vitamins. And this is true. But it is also true that these vitamins can easily be supplied from other sources.

Perhaps it should also be pointed out that during the 1947-48 corn crop year distillers' dried grain will amount to about 4 percent of the total supply of high proteins, and less than one-half of 1 percent of the total high-protein and whole-grain feed supplies. Nevertheless, it should be borne in mind that we have not advocated a complete shut-down of the distillery business.

One or two more figures may be of interest before we pass on to another topic. While the total protein-feed supply is about 10 percent

smaller than its wartime peak, the number of animal units has declined nearly 20 percent. The consequence is that the present supply of high-protein feed, in relation to the number of animal units, is the largest since 1944.

Senator FLANDERS. May I inquire whether the distillers' grains are more largely used in dairy feed than in stock fattening, or vice versa? What is the principal use of the distillers' grains?

Mr. BRANNAN. They are used in both industries or both aspects of the livestock industry, but a great quantity of them do go into dairy feed.

Senator FLANDERS. You may continue.

Mr. BRANNAN. In other words, it seems to us this concern over the feed value of distilling residue can only be interpreted as a smoke screen. In view of the ample supply of high-protein feed which is available, the need for continuing the unrestricted production of whisky cannot be defended on a feed-requirement basis.

The assertion is often made that, in restricting distillers' use of grain, we are discriminating against a single industry. These claims, reduced to essentials, simply mean that we have singled out distillers as a sacrifice to conservation. I have already indicated that our program does not contemplate shutting down the industry. In fact, if 2.5 million bushels were allocated monthly, the industry would be receiving grain sufficient for an annual production of 140 million tax gallons. This would mean only a small curtailment compared with annual replacement needs. Nor does our program interfere with the marketing of that part of their stocks that are ready for sale. In their essence, our regulations would only prevent the industry from rolling up additional inventories at a time when the Nation has a greater need for the grain at home and abroad. It is difficult to read into such a proposal an intention and an effect that is discriminatory in its motive. It seems like common sense in the place and time in which we are situated.

The statistics of the industry are the best evidence of why this is so. The industry normally sells whiskies which have been aged in wooden barrels in bonded warehouses for approximately 4 years. This means that when the industry speaks of the need of grain for the production of raw whisky, the whisky it wants to make will not be sold now, but 4 or some years from now.

During the fiscal year ending June 30, 1947, whisky sales reached the highest point in the history of the industry when they amounted to 145,000,000 tax gallons. Of this quantity, 15,000,000, or 11 percent, were unblended whiskies, and 130,000,000, or 89 percent, were blended whiskies. The blended whiskies consisted of one-third aged whisky and two-thirds neutral spirits.

In other words, only 58,000,000 tax gallons of aged whisky were used in bottling 145,000,000 tax gallons of liquors that came to market as whisky. The difference between the 58,000,000 tax gallons and the 145,000,000 tax gallons was 87,000,000 tax gallons of neutral spirits.

Senator BUCK. What does that term mean, "neutral spirits"?

Mr. BRANNAN. That is a technical term which to me, Senator Buck, means alcohol.

Senator FLANDERS. What is the difference in the process between distilling whisky and distilling neutral spirits?

Mr. BRANNAN. A layman's point of view, Senator, is that distilled spirits are more refined and a more concentrated form of the product. In whisky the concentration of alcohol or the content of alcohol runs anywhere from 80 to 100 percent. In distilled spirits it will run in the neighborhood of 190 proof.

Senator FLANDERS. That is proof and not percent.

Mr. BRANNAN. Proof.

Mr. SCHAFER. Half of that is percent.

Senator FLANDERS. We can go into that later with the distillers.

Senator SPARKMAN. You used both terms. Is there a difference between the two terms?

Senator FLANDERS. They are both distilled.

Senator SPARKMAN. He used the term more or less interchangeably, and I wanted to find out if it is properly so used.

Mr. BRANNAN. Distilled spirits is the more general term and neutral spirits is just a term almost interchangeable with distilled spirits.

Senator FLANDERS. Would that include both whisky and neutral spirits?

Mr. BRANNAN. May I call upon the Alcoholic Tax Unit man to give us that? There are legalistic definitions of that. Would you please?

Mr. SERR. The term "distilled spirits" covers all distilled spirits. Neutral spirits is the pure part. It is sometimes called alcohol, or in our definition called spirits. The characteristics of whisky have been eliminated through higher distillation, and it is purer spirits without any character or flavor.

Senator FLANDERS. It would appear, then, there was something in whisky that you wanted to keep out of it, and which you have to dilute by putting in refined whisky, is that right?

Mr. SERR. What you have in whisky is the flavor. What you have in neutral spirits is no flavor.

Senator SPARKMAN. Are neutral spirits used in whisky?

Mr. SERR. Yes.

Senator SPARKMAN. Do you use neutral spirits to make whisky?

Mr. SERR. You blend them with whisky in order to make a finished whisky.

Senator SPARKMAN. I am getting nowhere fast.

Senator FLANDERS. We have an expert now from Kentucky.

Senator COOPER. In the production of distilled spirits or neutral spirits, which would require the most corn to produce?

Mr. SERR. On a proof-gallon basis it makes no difference. In other words, if you measured the alcohol in whisky or in neutral spirits, gallon per bushel, it makes no difference.

Senator COOPER. In the total production of distilled spirits, neutral spirits?

Mr. SERR. It is all rated on a tax-gallon basis, so you can speak of them—

Senator COOPER. Which uses the most corn? In the total volume.

Mr. SERR. You mean whether more corn went into whisky last year?

Senator COOPER. Yes.

Mr. SERR. Or went into neutral spirits last year?

Senator COOPER. Yes.

Mr. SERR. I think the whisky figures were quite a bit larger.

Senator COOPER. Have you got any figures on that?

Mr. SERR. Yes; I can give you that in a minute.

Senator COOPER. Your neutral spirits do not necessarily have to be used in making whisky, is that not correct?

Mr. BRANNAN. It could be industrial alcohol.

Senator COOPER. It could be used for any purpose, is that correct?

Mr. SERR. Coming back to your question as to whether more grain was used in making whisky or making neutral spirits, whisky production last year amounted to 168,000,000 tax gallons. Spirits production was 92,000,000 tax gallons. So you can see that roughly there was about two-thirds more grain went into whisky than into spirits. There was some additional neutral spirits made at alcohol plants. That also took grain. It is probably about 50-50 if you take it in alcohol.

Senator FLANDERS. You may continue, Mr. Brannan.

Mr. BRANNAN. The point is that whisky inventories supplied only about 40 percent of the whiskey placed on the market for consumers. This aged whisky comes from production normally 4 years before bottling. This point is important in analyzing the current grain needs of whisky distillers. It means that the grain used in current whisky production goes into inventory and is not used to supply the requirements of current whisky sales.

Representative HERTER. When whisky is blended with a neutral spirits, is the blend before it is laid away for 4 years or blended just before it is bottled and sold?

Mr. BRANNAN. Blended at the time of bottling.

Representative Herter. Then the blended whisky would require current uses of the neutral spirits, would it not?

Mr. BRANNAN. That is right.

Representative HERTER. Rather than laying up inventories.

Mr. BRANNAN. That is right.

If we were to give the industry only the grain needed to supply current needs with none for future inventory purposes until this year's corn crop is picked, we would allocate only such grain as the industry would require immediately in its bottled product.

During the fiscal year ending June 30, 1947, as indicated, the industry used 87,000,000 tax gallons of neutral spirits in making its whisky. As the withdrawal figures indicate that sales so far this year are at least 20 percent below the fiscal year 1947, the amount used in that period should provide an ample margin for the industry's current needs, including spirits for gin.

To produce 87,000,000 tax gallons of neutral spirits, approximately 18,000,000 bushels of grain are required. This is 1,500,000 bushels per month.

You will see, therefore, that our January allocation of 2,500,000 bushels supplied the industry with approximately 1,000,000 bushels for whisky that could go in inventory. This was 40 percent more than was actually needed for current consumption.

Inventories of neutral spirits in bonded warehouses show that the industry could operate without inventory replacement between now and the next corn harvest. First of all, there are approximately 40,000,000 tax gallons of neutral spirits in Internal Revenue bonded

warehouses and 20,000,000 tax gallons of alcohol, apparently mostly beverage alcohol, in industrial-alcohol bonded warehouses.

Senator BUCK. You get 5 gallons of neutral spirits out of 1 bushel of grain?

Mr. BRANNAN. About four plus, four and a half.

Again on the basis of use in fiscal year 1947, these 60,000,000 tax gallons would last for better than 8 months. When the 20-percent drop in consumption during that last 6 months of 1947 is considered, these 60,000,000 tax gallons might even last close to 10 months.

On the basis of its neutral spirits inventories, the industry could maintain its present rate of sales for another 8 to 10 months, or until the next crop year, without the use of any grain. This would not be the first time that the industry, in an emergency, continued sales for such a length of time without the production of new whisky or neutral spirits. During the war the industry was completely closed between October 1942 and August 1944. The neutral-spirits and whisky inventories at the present time are about the same as they were in October 1942 when the industry started on a 21 months' period of sales without any new production.

Since we have discussed in some detail the manner in which bottled whisky is made and the relationship between whisky and stocks of neutral grain spirits, perhaps some reference should also be made to whisky stocks in bonded warehouses. This, of course, is the distilled whisky which will be bottled for sale as straight whisky at maturity or mixed with neutral grain spirits for sale as a blended product.

According to the Alcohol Tax Unit of the Bureau of Internal Revenue, as of June 30, 1947, there were 464,000,000 tax gallons of whisky in bonded warehouses which have been produced since the fall of 1939.

Senator BUCK. What does the term "tax gallon" mean? What it seems to imply—

Mr. SERR. Tax gallon is a gallon for tax purposes and represents a wine gallon 50 percent alcohol and 50 percent, let us say, water; just a means of measuring.

Mr. BRANNAN. The attached table gives this stock position in terms of when this whisky was produced. As you review it, please note that as of June 30, 1947, there were 161,000,000 tax gallons which were more than 2 years old. This is the whisky which, during the next 2 years, will be bottled for sale—not the whisky being manufactured from current grain stocks or even from last year's or the year before that.

Remembering that we have 161,000,000 tax gallons of whisky more than 2 years old, we will recall that the high point in whisky sales was 145,000,000 tax gallons sold in the fiscal year ending June 30, 1947. But the 145,000,000 tax gallons was, if you recall, made up of 57,000,000 tax gallons of whisky and 87,000,000 tax gallons of neutral spirits. Aged whisky has storage losses which average approximately 25 percent of original entry gallons. Accordingly, an allowance should be made for the 57,000,000 gallons of whisky used in 1947 by adding 20,000,000 tax gallons for losses. Thus, inventory requirements were 77,000,000 tax gallons for 1947. At the same rate, the 161,000,000 tax gallons of whisky 2 years old or older would last fully 2 years.

And, of course, as we consider these facts, let us soberly remember that the whisky we make today is primarily for use 4 years from now, whereas the hunger of people abroad for food cannot be satisfied on a futures basis.

Against this background, it can be seen that the industry is not going to suffer any actual damage. In fact, it could well be suggested that we should reduce the monthly quota from 2.5 million bushels to 1.5 million or even eliminate it entirely. There are good reasons why we have not and why we do not. It is our intention, first, to administer the law with the least possible interference with business.

Aside from a basic intention to make the impact as light as possible, we have two very practical reasons for refusing to tighten the regulations to the last notch. We are aware of the industry's desire to lay away whisky stocks for sale in the 1950's. This would be the normal practice at this time, and we recognize it. But even more important is the fact that supplies most certainly are not evenly distributed in the industry. Drumtight controls could injure those with inadequate individual stocks, and it is more than likely that these operators would fall largely within the definition of small business. I point this out simply because Congress has required administrative agencies at all times to be alert to the problems of small business.

We also believe this policy will properly protect the interests of distilling labor, and that, by following it, unemployment in the industry will be minimized. These are necessary considerations in light of the technical and specialized nature of distilling-labor operations. Beyond the employment aspects, which are themselves significant, it does not seem desirable that the importance of holding integrated work forces together should be lightly dismissed.

This, I think, deals with the claim of discrimination insofar as these controls could affect the industry. But I want to go a little further. I would like to point out the country's short supply of feed grains has already created widely diverse problems for farmers and consumers and for other industries. Farmers have been forced to reduce their animal feeding, to market their livestock at lighter weights, and to plan reduced production in the months ahead. Consumers are paying higher prices for the foods they buy, especially products of livestock origin. Other grain industries are beset with problems of price and supply.

Thus our short feed-grain supply has created a variety of problems for farmers, consumers, and industry. To permit the distillery industry to operate without restriction would, in fact, discriminate in favor of one industry and against farmers, consumers, and other businessmen. We are now engaged in a broad program of conservation under the authority of Congress. We are seeking the cooperation of everyone in conservation in an effort to put a checkrein on inflation. If the distillers, who have shown, by and large, a determined opposition to voluntary conservation, go on using grain without restriction, the entire conservation program will certainly stand in jeopardy and is likely to fall far short of our goals. Conservation of grain in distilling is essential in a program that calls for an equal contribution from every American.

Following is the table to which I referred :

*Whisky stocks, according to season of production, in warehouses as of June 30, 1947*¹

Season of production	Million tax gallons	Percent of total
Fall-spring:		
1946-47.....	165	35.7
1945-46.....	138	29.7
1944-45.....	37	8.0
1943-44.....		
1942-43.....	14	3.0
1941-42.....	70	15.1
1940-41.....	33	7.0
1939-40.....	7	1.5
Total stocks.....	464	100.0

¹ Bureau of Internal Revenue, Alcohol Tax Unit.

Mr. Chairman, we received late yesterday afternoon a memorandum from the Canadian Embassy with respect to the uses of grain in Canada. We were not able to duplicate it by the time I came in the committee room this morning. There are at least two copies available here, and we will have perhaps before the end of the session this morning, and certainly within the course of an hour or two, a supply of copies of this memorandum.

Senator FLANDERS. Do you want to comment on the information in this?

Mr. BRANNAN. I think we summarized it, Senator Flanders, in the interpolations I made earlier.

(The memorandum from the Canadian Embassy dated February 3, 1948, is as follows:)

MEMORANDUM

In consideration of the present world shortages of basic foodstuffs, the Canadian Embassy wishes to draw to the attention of the Secretary of Agriculture the following details concerning the use of corn and other grains by the distillers in Canada:

1. Imports of corn from the United States during the period Jan. 1, 1947, to Dec. 31, 1947, for production of food products in Canada.....	<i>Bushels</i> 4, 350, 000
Imports of corn from the United States by Canadian distillers during the period Jan. 1, 1947, to Dec. 31, 1947.....	3, 629, 000

Total imports of corn from the United States during 1947..... 7, 979, 000

2. Imports of corn from the United States in 1945 amounted to 1.7 million bushels; in 1946, 2.5 million bushels; in 1938, imports of corn amounted to 7.2 million bushels.

3. United States corn used by Canadian distillers during the past 3 years amounted to the following: 1945, 678,000 bushels; 1946, 830,000 bushels; 1947, 3,629,000 bushels.

4. In contrast to the increased usage of corn during the past year, it should be noted that Canadian distillers used the following quantities of wheat: 1945, 6,007,870 bushels; 1946, 3,222,660 bushels; 1947, 242,347 bushels (11 months).

Wheat usage has been banned in Canada since March 17, 1947, with the exception of wheat unfit for human consumption. The restriction of the use of wheat by the distillers has automatically made available larger quantities of this commodity for export to the needy areas. Therefore, distillers who operated did not have sufficient grain to renew their beverage stocks but operated largely on molasses to relieve the demand of the industrial users, and indeed for this purpose were forced to import from the United States alcohol in excess of one million imperial gallons to offset the shortage.

5. The consumption of rye by the Canadian distillers has decreased during the past 3 years as follows: 1945, 624,200 bushels; 1946, 433,100 bushels; 1947, 397,300 bushels (11 months).

The importation of rye was prohibited as of November 7, 1947. It should also be noted that, although more rye was imported in 1947 than in 1946, quantities far in excess of the imports were exported principally to European countries as a supplement to their bread-grain requirements.

6. Production of distilled liquors in Canada during 1947 was far below capacity. During the entire year 1947, the following performance record of the 15 distillers operating in Canada is significant: One closed for 6 months, one closed for 4 months, two closed for 2 months, two closed for 1 month, two on reduced production for 4 months, one on reduced production for 3 months, two on reduced production for 2 months, one on reduced production for 1 month, two only operated at full capacity during the year 1947.

7. Distillers do not consume all of the grain used for the production of spirits. Considerable residual feeding stuffs become available for livestock. This, it is assumed, would apply equally to the operations of distillers in other countries.

CANADIAN EMBASSY.

WASHINGTON, D. C., February 3, 1948.

Senator BUCK. If your program is put through, how much grain will you save?

Mr. BRANNAN. We would save the difference between 30 million bushels, if we gave 2.5 million a month, and somewhere in the neighborhood of 60 million bushels, or about 30 million bushels.

Senator FLANDERS. The figures that I asked indicated that you had in 1947, was it not, a 60,000,000 consumption?

Mr. BRANNAN. That is right.

Senator FLANDERS. That your prewar consumption had been around 35 to 40 million?

Mr. BRANNAN. Yes.

Senator FLANDERS. There had already been a 20-percent decrease in consumption for some reason in the last 6 months of 1947. Is there any information as to what that decrease in consumption was caused by?

Mr. BRANNAN. Well, I think it is part of the readjustment which comes after the war, and I think it may indicate some reduction perhaps in purchasing power over the country as a whole.

Senator FLANDERS. The allotment, particularly if we take that 20 percent into account, the allotment seems generous. If you are going to have any allotment at all, it seems like a very generous one to me. I do not know how it appears to the rest of the committee.

Senator COOPER. I want to ask a few questions upon the amount of grain that you say would actually be saved.

Mr. Brannan, of course, you admit that corn is not primarily a human food grain, but animal food grain; that is the way in which you are considering it, is it not?

Mr. BRANNAN. Yes, sir; but the disappearance of corn, of course, immediately throws a burden upon or begins to focus the attention of people who must do feeding and have other industrial uses upon wheat, and will accelerate the disappearance of wheat.

Senator COOPER. It has a connection, of course, in the wheat.

You stated that it would save 30,000,000 bushels of grain. You stated that before there would be a recovery of one-third for animal food. So would you say then that you were saving actually 20,000,000 bushels of grain?

Mr. BRANNAN. Yes; you would, in one sense of the word; but remember this, that the recovery is a recovery of proteins of which we

already have ample supply and have no particular occasion for needing to recover. Certainly, feeding the whole grain to the animal is going to be a better balance, give a better-balanced ration than feeding him the protein residue from the distilling process.

In other words, what has been taken out is the carbohydrates, and that is one of the things we are particularly short of.

Senator COOPER. But your figure of 30,000,000 bushels would be reduced to some extent of some saving in the recovery.

Mr. BRANNAN. That is correct.

Senator COOPER. I was interested in the figures you gave a while ago upon the total supply. You state that you estimate the total supply of corn to be 2,700,000,000, is that correct?

Mr. BRANNAN. Yes, sir.

Senator COOPER. Upon what date was that estimate based?

Mr. SCHAFER. Latest data we have are as of January 1.

Senator COOPER. Several weeks ago I secured from the Department of Agriculture a statement of the estimated supply distribution of grain, for this year, and that was as of December 3, 1947. At that time they stated the estimated supply of corn was 3,174,000 bushels.

That is nearly a difference of 500,000,000 bushels of corn in about 6 weeks.

Mr. BRANNAN. Mr. Pond can explain that to you.

Mr. POND. The 2.7 billion is on the basis of the October to September year, whereas the 3.1 is on the fiscal year basis, you see, the difference being in the amount of stocks as of October 1, and as of July 1. We used the same production figure of 2.4, but add to it the beginning stocks for the different years. That is the reason for that.

Senator COOPER. You mean that figure, one 12 months—

Mr. POND. They are both 12-month periods; one is fiscal year, and the other is a crop year.

Senator COOPER. How much do you estimate would be your production for this year?

Mr. POND. Two and four-tenths billion bushels.

Senator COOPER. What was your carry-over?

Mr. POND. Carry-over as of October 1, 285,000,000 bushels.

Senator COOPER. I will ask you, If you could save 20,000,000 bushels of grain, is that to be retained in our own economy or is it to be added to the amount which we export?

Mr. BRANNAN. Senator Cooper, I think it will be available for the uses which Congress, and which the country deems most essential. I do not know whether you could take this particular quantity of grain and trace it into a foreign export program through conversion to wheat, and so forth, or into our own domestic economy, and all of the other things for which corn goes, particularly animal feed.

Senator COOPER. You do make estimates as to the amount of corn and wheat that you expect to export.

Mr. BRANNAN. That is right; we do, sir, and of course we plan to export a very small quantity of corn, but have attempted to—have set a goal of 450,000,000 bushels of wheat.

Senator FLANDERS. You would not change your plans for export, or would you change your plans for export on the basis of the saving of this much corn?

Mr. BRANNAN. I do not think we would, Senator. I think the impact or the benefit would be primarily to our domestic economy.

Senator FLANDERS. I would like to put into the record at this point, since the question of the food value of distillers grains was raised, a letter from Mr. F. B. Morrison, professor of animal husbandry and animal nutrition at the New York State College of Agriculture, Cornell University:

To Whom It May Concern:

According to the best available information, the supply of cereal grains in this country at present is not sufficient to meet fully the needs for human food and livestock feeding in the United States and to provide enough grain to relieve the critical food shortage in certain other countries under the Marshall plan. It is my opinion that under these conditions the use of cereal grains for the production of distilled or brewed beverages should be reduced and restricted. It is further my opinion that similar reductions should be made in the use of cereal grains for such purposes by any country to which we furnish grain under the Marshall plan.

It has been argued that the use of grain for distilling or brewing does not reduce the supply of feed for livestock, because of the value for feeding of the byproducts produced—distillers' dried grains, distillers' solubles, and brewers' dried grains. While these byproducts are valuable livestock feeds, in my opinion they are not at all essential for efficient livestock feeding. They can readily be replaced by other protein and vitamin supplements which are available.

At the present time there is apparently less shortage of protein-rich supplements for livestock feeding in this country than of grains. This is shown by the fact that corn gluten feed and distillers' corn dried grains (both excellent protein supplements for dairy cattle) are selling at a lower price per ton than any of the grains. Under usual conditions, the price of protein rich supplements is decidedly higher than that of grains.

It is my opinion the byproducts available for livestock feeding which are recovered in distilling or brewing a ton of grain have far less total feeding value than the original ton of grain.

I would suppose that the feeding value would be roughly diminished by the amount of carbohydrates turned into sugar and alcohol.

Mr. BRANNAN. That is right.

Senator BUCK. It is reported that the FAO break-down of grain requirements originally showed 71,000,000 bushels earmarked for use by foreign governments for brewing and distilling. Objections resulted in the elimination of this classification but no reduction in over-all total. Are those figures correct?

Mr. BRANNAN. Senator Buck, we are guided exclusively by the International Emergency Food Council, and their allocations specifically provide that no grains exported from this country shall go for other than food and seed.

Senator BUCK. The figures are not correct.

Mr. BRANNAN. Not correct to the best of my knowledge.

Senator BUCK. Are there any voluntary agreements with other grain processors actually in existence other than those arranged by the Luckman committee?

Mr. BRANNAN. I would like to say that we are in a series of negotiations with the brewing industry, and the brewery industry had an agreement with the Luckman committee which expired February 1. They have agreed informally to continue the formula which they entered into with the Luckman committee, and are in the process of working out a new formula under which additional savings will be made, or conservations of grains will be achieved by that industry. It is not a final agreement. It is subscribed to by all of the industry but the leaders of the two main groups of the industry usually referred to as the big brewers and the little brewers have both indicated agreement with a formula which the Secretary has found on prima facie examina-

tion to be possibly acceptable. So we are making great progress with them.

Representative **HERTER**. Merely to get the relationship of this picture to the whole conservative program, in the final report of Mr. Luckman, he stated that he had made voluntary agreements, which in his opinion would save from 90 to 121 million bushels of grain divided between the poultry people, which was 56 million bushels, the distillers between 10 and 20 million, the bakers 9 million, the brewers 3 million, and the armed forces between 2 and 3 million, and the wet and dry millers between 15 and 30 million, making a total saving through these voluntary agreements of between 95 and 121 million bushels of grain.

I think it was on that basis that your estimates were made that we could export an additional 100,000,000 bushels of grain over the original 400,000,000 that had been estimated, that it would then jump to 500,000,000.

I wonder in connection with these other voluntary agreements what success you have had in the maintenance of those agreements, or whether they have fallen to pieces, and no further voluntary agreements have been made, and what success you are having in reaching these targets.

Mr. **BRANNAN**. I think two general comments must be made first. Of course, any industry agreement is not adhered to 100 percent by the industry. That was even true of the distillers holiday when they ceased using grain at all for a period of time. The bulk of the industry in most of these cases did comply and achieved certain substantial results. Some industries through either circumstances beyond their control, or which they just did not contemplate at the time they made the agreement, have not been able to contribute a great deal to the saving of grain. One of those industries is the poultry industry so far.

Representative **HERTER**. The poultry figure is the larger figure of the lot, 56,000,000 bushels, and I was wondering whether you were reaching that, or whether you were going to come to us later and ask for legislation of some kind of compulsory compliance.

Mr. **BRANNAN**. We have entered into discussions and negotiations with every segment of it, every major segment of the grain-using industry. The Secretary had a meeting a week or so ago with the brewers, first of all, independently, because there was a large group of them, and then we asked them all to come in.

At a second meeting he had representatives of the wet and dry corn millers, the bakers, the feed mixers, the poultry, the meat, and I think that is the major ones, and following up the over-all meeting in which the Secretary, and I partly for him, attempted to explain the need for a continuation of the program, we broke the meeting up into segments of those representing each special industry, and assigned some people in the Department of Agriculture who had familiarity with their business to sit and talk with them about a voluntary program.

We have begun to try to pull these together, and see whether or not we can make some concrete recommendations to be promulgated under Public 395. As you know, they must go through the Attorney General and certain other processes.

Also, as indicated in my statement, we have had as hard a drive voluntary program as we could put forth in the program for many months, even prior to and concurrent with the Citizens Food Commit-

tee, to secure the maximum grain conservation and reduction of wastage and loss on the farm, because after all, that was one of the big places where we can reach a substantial or achieve a substantial saving.

Those campaigns are going on in conjunction with the industries who serve the farmers and again I talk about or refer to the meat industry, the feed mixers and those groups. They have been extremely cooperative. They carried many hundreds of thousands of dollars, I would venture to estimate maybe a million dollars or more of advertising in their trade journals, and in the daily press, and we have put out from the Department some technical helpful pamphlets. Of course it is hard to say just how much you achieve in bushels.

We are confident that we are getting good cooperation from the farmers on those programs. It just makes good sense to the farmers, most of the things we are suggesting, anyhow, which makes us feel that we are getting cooperation there.

Representative HERTER. The point I was driving at was this: The problem that is now before us in terms of the over-all is comparatively a small segment from the point of view of the savings, and that is why I was very much interested to find out how close you are coming to your targets in the rest of these segments. Whether you feel here is one particular area that you have to move in on in order to make these savings through compulsory allocations, rather than through any further efforts towards voluntary savings, and whether or not this is merely the prelude of having to move into other areas, whether the brewers or the bakers or the poultry or wet and dry millers.

Senator FLANDERS. The specific message from the President applied only to ethyl alcohol.

Representative HERTER. I was wondering how the other programs are coming along, whether you are making enough headway on a voluntary basis.

Mr. BRANNAN. That is, whether the message on the distilleries could be applied to some others. We are hopeful that by diligent effort we will be able to achieve new voluntary agreements which will carry on the conservation activities which were initiated. I am afraid I cannot estimate in bushels how near the 100,000,000 goal that Mr. Luckman set up for himself we came in the period of time. As a matter of fact, the whole period has not run out which makes it partially difficult, and part of the things which were to have been done in that period of time still could be done, and achieve some benefits, which might be credited back.

Senator FLANDERS. May I inquire whether taxation of fermented liquors is on the same basis as distilled, on the tax gallon of alcohol, or is it a different rate?

Mr. SERR. It is entirely a different rate, \$8 a barrel for 31 gallons against \$9 a proof gallon for proof spirits.

Senator FLANDERS. That is irrespective of the alcohol content.

Mr. SERR. Yes.

Senator BUCK. Have wet brewers and wet millers been restricted as yet?

Mr. BRANNAN. No; not by any involuntary action.

Senator BUCK. Have you any voluntary arrangement for conservation?

Mr. BRANNAN. I think there are none in force and effect now. We have talked with them and Mr. Luckman's committee talked with them about it.

Senator BUCK. Are they consumers? Do they use a good deal of grain?

Mr. BRANNAN. They do use considerable grain. Their grains go into the feeding of livestock and the other food commodities, which we are trying to encourage coming to market. It is really a selective matter, as far as they are concerned, and the objective would be to get them to use the grains which are in freer supply or greater demand on the other hand, greater demand in particular areas.

Senator BUCK. Why has this industry been singled out, the distillers, instead of the brewers and wet millers?

Mr. BRANNAN. First of all, we had to start some place. In our negotiations with all of the various industries, it was more obvious and apparent that no agreement could be reached with distillers than with other groups; at least we have the impression today that there is greater dissention within their own ranks, and lesser possibility of them agreeing on any program that we could accept than anywhere else, and third, we had to start some place.

Actually we did not start with these folks. We have started on the farm, and as I did attempt to say a few minutes ago, I think we have made considerable advancement with respect to the farmers.

Senator FLANDERS. Also, there was the situation with regard to the distillers that you brought out in your testimony that what they distill now is not used for 4 years, so that you have a cushion with them that you do not have with brewing. I do not know how long it takes to age beer, perhaps someone here does.

Mr. SCHAFFER. About 2 months.

Mr. BRANNAN. That was one of the other important factors that caused us to move in this area.

Senator BUCK. I think you have told that a serious effort has been made to effect voluntary agreement with the distillers under Public Law 395.

Mr. BRANNAN. Yes, indeed.

Senator FLANDERS. Senator Watkins, do you have any questions?

Senator WATKINS. I find the questions I intended to ask have been asked while I was away from the room.

Representative HART. Mr. Secretary, could you tell us what is the over-all effect of our shipments of grain to foreign countries, all foreign countries, upon the release of grain in those countries for distilled beverage purposes, which in the absence of those exports they might be compelled to use for food?

Mr. BRANNAN. I am afraid that I could not give you that answer. I imagine it could come best from both the State Department and the Army. Again I say we project our shipments on the premise that they will be used for food and for the stimulation of production.

Representative HART. I understand that, but if they release grains that otherwise might be used for feeding the citizens of those countries, for distilling purposes, I do not see that that is any practical advantage. If they have 100,000,000 bushels of grain that they might require for feeding purposes, and we supply them with 100,000,000 bushels of grain that enables them to use their 100,000,000 bushels of grain in distilling, there is no practical advantage to us in that

provision that they shall not be permitted to use the grain that we ship for distilling purposes.

Mr. BRANNAN. That is true. I personally do not know that there is production in appreciable quantities in any of the countries of Europe to which we are making the major shipments.

Representative HART. I do not either, but I would like to know.

Mr. BRANNAN. I would like to point out in reaching the decisions as to the amounts of grain which we could ship to them, we started out with the premise of how much it would take to feed the people over there, and added to it, first, or subtracted from it, first, how much was available to feed the people, and then tried to see how close we could come to filling in the deficiency. Certainly the amount of food which is produced in most of the war-torn countries of Europe, together with what we will ship them, will leave the people still over there on a very meager diet, and I again certainly do not say there may not be some going into distilling, although I would suspect very small amounts. There may be some of their own grains going into the manufacture of beer, but it is an extremely small amount as far as our contemplation is concerned. We do not allow for it in our computations of what we are sending them. We are thinking only of the level of nutrition and food which the people over there need.

Representative HART. In any use by them of any of their grains for distilling purposes and beverage purposes, it would only be at the sacrifice of the nutritional levels which your Department has in mind.

Mr. BRANNAN. I think so.

Senator FLANDERS. On page 8 of your testimony, you had this sentence:

In this connection it is interesting to note that the use of grain for the production of scotch in the United Kingdom is now less than 40 percent of prewar use according to private sources.

And you go on to speak of its use for building up dollar balances.

Mr. BRANNAN. Yes.

Senator FLANDERS. Senator Sparkman, have you any questions?

Senator SPARKMAN. My only thought is this, Mr. Secretary, that in our discussion of the amount of grain that is used in countries to which we may be shipping grain, that is grain that is used for distilling purposes, we have to keep in mind that just as there is an argument for the distillers in this country, based on the economy of the country, that that same argument applies with equal force to those countries.

Mr. BRANNAN. I certainly agree.

Senator SPARKMAN. And that certainly we cannot establish their economy for them or do something that will throw them out of adjustment.

Mr. BRANNAN. That is right. In other words, Senator, I am sure I am in agreement with you, that the ultimate objective of any efforts to help these countries is to reestablish their total economy.

Senator SPARKMAN. That is correct.

Mr. BRANNAN. And if reestablishment of some brewery or distillery activity is a part of it, maybe that is a judgment for the State Department or someone else.

Senator SPARKMAN. If I understand from your paper here, you are trying to work out a plan that will allow to the distillers of this country a fairly reasonable quota in order to prevent throwing them into a

serious dislocation with reference to employment, maintaining inventory, plant maintenance, and all of those things.

Mr. BRANNAN. And also, Senator, to make it possible for all segments and all sizes of operations within the industry to maintain its same position.

Senator SPARKMAN. To share equitably in the available supply.

Mr. BRANNAN. Yes; and that is the reason why we have the 6,000-bushel minimum for all plants in order to be sure that no plant will suffer by this order to the best of our ability to prevent it.

Senator SPARKMAN. And of course any insistence on our part that these foreign countries should close down completely before we give them any grain or before we take any away from ourselves is simply failing to recognize those problems in their own countries.

Mr. BRANNAN. That is right.

Senator SPARKMAN. That is all.

Senator WATKINS. What about Germany; does our Army distribute grain to Germany in the occupied area?

Mr. BRANNAN. I understand they do, sir.

Senator WATKINS. Do you know whether or not any of that is used for beer making or for distilled spirits, whisky?

Mr. BRANNAN. I am advised that none of it is used, Senator Watkins, but I certainly am not an expert on that. I would rather have the Army testify to that.

Senator WATKINS. It has to do with the general situation we are talking about here, the grain supply, total grain supply.

Mr. BRANNAN. We continually go on the premise that what leaves our country is for food, was for food and for seed.

Senator WATKINS. Do you know whether the Germans are using any of the products of their own farms in the brewing and distilling industries?

Mr. BRANNAN. I would not represent to you that they do not. I do not know that they do.

Senator WATKINS. You would not say that we had to reestablish their industry over there in order to put them on their feet in that particular regard when they are actually starving.

Mr. SCHAFER. I am sure they are making beer with some of their own grain.

Senator WATKINS. We ship it over there to make up for that amount.

Mr. SCHAFER. It is on a very restricted basis.

Senator WATKINS. I am concerned with the principle. They may need food more than they need beer. They may need beer. I would like to know about that situation. If you can get any information for us, I would appreciate having it.

Mr. BRANNAN. Perhaps the Germans are part of that group which may consider beer as a part of their normal food needs.

Senator WATKINS. It may be.

Mr. BRANNAN. I do not subscribe to that at all. But I can readily believe that there are many peoples in the world who do think that beer is a part of their food needs.

Senator COOPER. I think there is one matter which has not been cleared up that has been suggested several times, and I want to say that so far as I am concerned, I agree wholeheartedly with any program which is directed toward the saving of grain for food.

Senator FLANDERS. And feed.

Senator COOPER. I want to make that plain, my own feeling about it. Here is a situation which I think has not been cleared up in this hearing.

We have talked about allocations which require that grains cannot be used for alcohol, distillation of alcohol. You have said that did not apply to Canada. You are asking the distilling industry to reduce its capacity to supply grain presumably for food.

I think the only way you can determine what is happening in Canada is to ask this question: Is Canada operating at a capacity basis in the distillation of spirits or is it reducing its production?

I do not care what formula you use; it seems to me if Canada is operating at capacity, then you cannot justify it.

Mr. BRANNAN. May I read from the statement of the Canadian Embassy.

Production of distilled liquors in Canada during 1947 was far below capacity. During the entire year 1947, the following performance record of the 15 distillers operating in Canada is significant:

One closed for 6 months, one closed for 4 months, two closed for 2 months, two closed for 1 month, two on reduced production for 4 months, one on reduced production for 3 months, two on reduced production for 2 months, one on reduced production for 1 month, two only operated at full capacity during the year 1947.

Senator COOPER. I think there is another thing you should clear up and that is the difference between capacity and average production.

You said that in Canada they did not operate at capacity. Have you any figures to show how much distilled spirits they produced during 1947 as compared to their average production? I think that would give a clearer picture of how much they have actually reduced the production, if any.

Mr. SCHAFFER. Over the telephone this morning, one of the Canadian representatives told me, when asked how about December production, and of course they said it went up quite a bit, and December production was better than 700,000 bushels, when the average for the year was a little under 500,000 bushels per month. So the capacity to them of course was greater than the figures given.

Senator COOPER. Could you furnish the committee some statement as to the average annual production of distilled spirits in Canada?

Mr. SCHAFFER. Over the year.

Senator COOPER. So that they will know what they are actually producing now, as compared to the average? Could you do that?

Mr. SCHAFFER. I am sure they have not been working at any greater capacity than we, and they were restricted during the war.

Senator COOPER. I think the figures will speak for themselves.

Mr. SCHAFFER. For a longer period than we were. They made no whisky until after December 1945.

Senator COOPER. In your allocation have you taken into consideration any difference between capacity and the historical production of distilled spirits?

Mr. BRANNAN. Yes, Senator Cooper.

Senator FLANDERS. You might state your formula, your previous formula or your proposed formula, if they are different in any way.

Mr. BRANNAN. On that point, the formula as indicated in the statement would probably be about the same as we were operating with in January of this year. But I would like to preface the reading of the formula by this.

During the war we were confronted with this problem of allocating grains to all of the various industries, and we did have a great deal of study and work over the question of what is a proper and equitable allocation within the distilling industry of the available grain.

We started out I think at one time with capacity as the primary basis, and swung from one time or another in the direction of historic base. Then if you will recall, there was a suit brought by one of the distillers which said we did not have a right to take into consideration the historic basis, and that position was sustained by the court, on the basis of a law then in force and effect, which is not now in force and effect.

So that we have worked continually with the formula and have come to the conclusion that if we base our allocations on a formula which weights historic operation to the extent of about two-thirds, and capacity of about one-third, we will have achieved as much equity as we know how to achieve in the industry.

I do not say that it is entirely perfect, but I do say it is the best formula that we have been able to devise after a great deal of study and a great deal of experience.

Senator COOPER. You stated a while ago that this problem of corn, of course, is true, as related to wheat. I notice today in the papers a considerable drop in the price of wheat; some explained it by new estimates as to the supply of wheat available. In the Department of Agriculture have you any information which leads you to believe that your estimates made during the special session of Congress have been reaffirmed several times, that you can now raise that estimate?

Mr. BRANNAN. I am a little reluctant to try to tell you that we have made a revised estimate. Obviously as time goes on we do learn more and more about the grain stocks of the country because they come closer to light, and we can get estimates on them.

Senator FLANDERS. Do you not have specific periods at which you make those estimates?

Mr. BRANNAN. We do.

Senator FLANDERS. When is the next one?

Mr. BRANNAN. It would be the 15th of March on all grains.

Senator FLANDERS. When was your last specific period?

Mr. POND. If you are speaking of the 1948 crop, the next official estimate will be in April, but it will be about the 10th of April, I think.

Mr. BRANNAN. As of the 1st of April.

Senator FLANDERS. When was the last estimate?

Mr. POND. The last one was in December.

Senator FLANDERS. So there is no effect then to be expected from yesterday's market from any current figures which you would be publishing at this time.

Mr. POND. If I could say this, there have been some reports other than the United States, but in the United States the snow cover that has developed in the last week or two plus general moisture conditions have helped there, and there have been reports through other portions of the world, the Danube Basin, Australia, Argentina, that crop conditions appear to be better but they are of a general character.

Senator COOPER. As I understand it, you have stated that your estimates of crops, particularly wheat, made necessary these controls.

You stated specifically you wanted to save so many million bushels of grain to meet a certain export program, is that true?

Mr. BRANNAN. Yes.

Senator COOPER. And your whole demand for controls is based upon the necessity of supplying that deficit, and you based that upon an estimate of the availability of wheat during this year.

I will ask you is it not in the knowledge of the Department of Agriculture that since that time by reason of weather conditions that you have been able to raise your estimate of the amount of wheat that will be available, and also is it not true that you have, you know from information that has come from abroad, the picture as to grain production there is better.

Mr. BRANNAN. Well, Senator Cooper, we may be able to raise the estimates, and those estimates between now and the time the crops mature will vary. There is a more optimistic outlook now.

As a matter of fact, just a month or two back, we had a very pessimistic outlook. It could be that that cycle will take another turn, and we would have an optimistic outlook, but the premise on which we are asking for participation or contribution by the distilling industry to the conservation program is that we will not know for certain about the corn crop until October. We will know earlier about the wheat crop, but certainly will not know about the corn crop until October, and we ask them to make a reduction in their total uses which we think will not affect their industry in any serious way, and not affect their labor in any serious way until we determine that for sure.

Senator COOPER. You will admit that the outlook for grain is better than it was in November.

Mr. BRANNAN. Domestically, yes, and world-wide, yes.

Senator BUCK. Mr. Secretary, I hold a letter in my hand, a letter from a small distiller. He says under the Secretary of Agriculture he is allowed a minimum grain of 6,000 bushels for the month to small distillers, but has allowed no transfer of these quotas to other plants. I plead the statutory rights to transfer. I think I understood you to say this morning that you would not permit transfer.

Mr. BRANNAN. Only in certain hardship cases.

Senator BUCK. Does that result in some instances in hardship?

Mr. BRANNAN. Where it does, we allow it and make adjustments for it immediately.

Senator BUCK. You permit it to be done?

Mr. BRANNAN. Yes. The point is, Senator Buck, that we have not at any time consented to a transfer of the 6,000 minimum. If we had not established a minimum, he would have only had a capacity of maybe one-fourth or one-third or one-half of that, and it is those kinds of cases which have impressed us most intensely.

Senator FLANDERS. Congressman Bender, have you any questions to ask?

Representatives BENDER. No.

Senator FLANDERS. Senator Watkins?

Senator WATKINS. I understand that the Department of Agriculture now is controlling the export of grain as a regular policy.

Mr. BRANNAN. The Department of Commerce.

Senator WATKINS. The Department of Commerce?

Mr. BRANNAN. The export licenses are issued by the Department of Commerce.

Senator WATKINS. Do you know whether or not the grains are now being controlled through the Department of Commerce?

Mr. BRANNAN. To all countries except Canada.

Senator WATKINS. And you do not have any regulation with respect to Canada?

Mr. BRANNAN. We do not now.

Senator WATKINS. Do you know of any executive agreement with Canada covering the matter of exportation of or importation of grain?

Mr. BRANNAN. I assume, Senator Watkins, you are probably referring to what they call the Hyde Park agreement, the essence of which I do not know. If it has any bearing on this, I do not know anything about it.

Senator WATKINS. You do not know whether you have an executive agreement with Canada or not?

Mr. BRANNAN. I think the answer is, I do not know.

Senator FLANDERS. I might suggest few of us know what happened at Hyde Park.

Senator WATKINS. I have heard mentioned in connection with debates in connection with foreign aid, we cannot do this or we cannot do that, because there is an executive agreement among our allies and other nations. We cannot do that because of some executive agreement. I think we ought to have the information for the information of this committee, and for the information of the Congress, copies of the executive agreements. If there is such an agreement, I wish you would get it, or agreements, I will not limit it to one, in connection with our dealings with Canada, and in the export of grains.

Mr. BRANNAN. That is quite an assignment for me.

Senator WATKINS. Somebody down in the Department ought to be able to bring us a copy of that executive agreement. Will you attempt to get that information for us?

Mr. BRANNAN. Senator Watkins, we certainly will attempt to advise you with respect to that.

Senator FLANDERS. And in case of your inability to get it, you might report back to us that you are unable to get it.

Mr. BRANNAN. All right.

Senator WATKINS. If you know who has it, you might tell us where we can get it.

Senator BUCK. It may be in Hyde Park.

Senator WATKINS. There ought to be something in the Archives down somewhere that would get that for us. With respect to exports to South America and other Western Hemisphere nations, are we now exporting grains to these other countries, other than Canada?

Mr. BRANNAN. We are exporting flour to the Caribbean and South American countries. I think we have exported some barley to Mexico, which has found its way back into our breweries. The amount of grain which has gone into distilleries in any of our Latin-American neighbors so far as we know is of very infinitesimal amount. As a matter of fact, there was no really good fraction that we could put, that would achieve as to the amount of production or the amount of production for import into this country from those countries.

Senator WATKINS. Do you have the figures available as to the amount that is shipped there, and what is used in breweries and distilleries?

Mr. BRANNAN. We have some of those figures.

Mr. POND. We have some figures as to the shipments during the period July-December 1947.

Senator WATKINS. Could you get the information up to the present period, say for the last year?

Mr. POND. Yes.

Senator WATKINS. The amounts that have been shipped from here.

Mr. POND. We do not know separately what they have used for the production of distilled spirits and whisky.

Senator WATKINS. If there is such information available, I would like to see it.

Mr. BRANNAN. Very well, sir.

Senator FLANDERS. Senator Cooper says he has it, and I suggest that he read it.

Senator COOPER. I think it would be interesting. I would like to get it in the record.

It is a statement of the export bread grains, and of coarse grains. I think there is a great deal of feeling that all of the grains exported are going to war-devastated countries. That is what the public thinks. This is a report made by the Department of Agriculture of December 3, showing that bread grains, 63 percent to Europe, 12.3 percent to Latin America, 0.7 percent to Africa, 20.6 percent to Asia and the Pacific. Approximately the same percentage in coarse grains, which would of course include grain.

Senator WATKINS. What document is that?

Senator COOPER. A statement furnished me by the United States Department of Agriculture as of December 3, 1947.

Senator WATKINS. I suggest that ought to be in the record.

May I inquire with respect to corn? Are we shipping, exporting any corn to any of the countries in the Western Hemisphere other than Canada? We have already covered the Canadian situation.

Mr. BRANNAN. May I ask Mr. Pond to answer that?

Mr. POND. Only very insignificant quantities. The total exports of all corn from the United States this year we do not expect will exceed 24 or 25 million, most of which was shipped in the first 3 months of the present fiscal year.

Senator WATKINS. Of this year?

Mr. POND. That is right. We expected it to go out mostly as corn meal and grits, maybe 3 to 4 million bushels only for the balance of the year.

Senator WATKINS. I cannot reconcile what you have just said with the statement just made that 12.5 percent of our total grain crops went to Latin-American countries.

Mr. BRANNAN. Total grain crop, total exports.

Senator WATKINS. Total exports of grain to these Latin-American countries.

Is that in corn or is it in flour? What condition or what particular processed article is in it?

Mr. BRANNAN. We can give it to you. It will take some computation, Senator.

Senator WATKINS. The general impression is that all of the grain we are exporting is going to the war-devastated countries, that is what Senator Cooper just brought out. Apparently we are shipping a lot some place else.

Mr. BRANNAN. Let me go down the column on some of these. Bolivia is the first figure, 14,000 tons of bread grains have gone to Bolivia.

Senator WATKINS. Is that in the form of flour or in grain which is to be processed later?

Mr. BRANNAN. Almost entirely in the form of flour; no coarse grains have gone to Bolivia.

Brazil has received 85,000 tons of bread grains and 24,000 tons of coarse grains.

Columbia, 19,000 tons of bread grains and 9,000 tons of coarse grains.

Cuba, 100,000 tons of bread grains, and 13,000 tons of coarse grains.

Mexico, 152,000 tons of bread grains and 15,000 tons of coarse grains.

Representative BENDER. How about the British?

Mr. BRANNAN. We have not shipped to the British, sir.

Representative BENDER. You have not shipped anything to the British?

Mr. BRANNAN. No.

Representative BENDER. All of these stories we hear about Scotch whisky are fantastic, is that your impression?

Mr. BRANNAN. Certainly on the basis of grain which moved from the shores of the United States or from United States production to Great Britain.

I think there was at one time early in the year when a very tight food situation arose in Britain that certain shipments from this country were diverted there, a very, very small amount, and appropriate adjustment made otherwise. Britain gets her cereals from Canada, the Argentine, and Australia.

Argentina is not on the list at all as a recipient.

Senator WATKINS. Did you mention Brazil, that we shipped to them?

Mr. BRANNAN. Yes, sir; 85,000 tons.

Senator WATKINS. If you will finish the statement on the amounts shipped to Latin America, please.

Mr. BRANNAN. Cuba, 100,000.

Mr. SCHAEFFER. 100,000 long tons.

Mr. BRANNAN. And 13,000 long tons of coarse grain for Cuba.

Mexico, 152,000 tons of bread grains, and 15,000 tons of coarse grain.

Peru, 26,000 tons of bread grains.

Uruguay, 1,000 tons of coarse grains.

Venezuela, 37,000 tons of bread grains and 21,000 tons of coarse grains.

Senator WATKINS. That covers for the year 1947?

Mr. BRANNAN. The fiscal year July to December 1947, the period July to December 1947.

Senator WATKINS. At the time these shipments took place, these exports, export controls were being exercised by the executive department through the Department of Commerce?

Mr. BRANNAN. Right, sir.

Senator FLANDERS. Any further questions to ask of Mr. Brannan?

Representative HERTER. Mr. Brannan, in connection with your testimony, I take it that the neutral-spirits problem involved here is in volume considerably larger than that of the straight whisky which would be set aside for aging, that the actual requirements for neutral

spirits year by year in volume are considerably more than the requirements for whisky making?

Mr. BRANNAN. Would you answer that?

Mr. SERR. When you put it on a current basis, current demands for spirits against demands for aged whisky.

Representative HERTER. Your figure was 89 percent of the whisky was blended whisky in a bottle; there was two-thirds neutral spirits and one-third whisky, so roughly 60 percent of your problem is the neutral-spirits problem.

Mr. POND. That is right.

Representative HERTER. In the making of neutral spirits is it essential to use corn? Have they not been made from potatoes and black strap and other commodities in large supply?

Mr. BRANNAN. Yes.

Representative HERTER. Does not the Internal Revenue Department have a requirement that the source of those neutral spirits should be advertised on the bottle?

Mr. SERR. It must be shown on the label.

Representative HERTER. Does that not because of trade practices encourage use of grain where you could use substitute agricultural products that are in long supply?

Senator FLANDERS. Can a chemist find out any difference between neutral spirits made from potatoes and from corn?

Mr. SERR. In good neutral spirits it is very difficult to tell any difference.

Representative HERTER. You cannot tell the difference, and the trade practice, not the trade practice, but the internal-revenue requirement—I think we passed a law in 1931 requiring it, did we not, requiring the advertising of the source of the spirits on the label.

Mr. SERR. It must be shown on the label.

Representative HERTER. That was done in an effort, as I recall, to force the use of grain in the making of these spirits. Today we have a very different situation, and I am wondering whether part of this grain picture that you are talking about now could not be solved by relaxation of that particular provision of the law, and allowing the neutral-grain-spirit producers, the ethyl-alcohol producers to use whatever they can, as long as it is a hygienic and practically indistinguishable product from the grain spirits.

Mr. BRANNAN. As a theoretical matter it probably could. Further question we would then have to ask ourselves is, What are the available supplies of these other things? We have used each year, the distillers have, potatoes out of the potato surplus crop, the alcohol or the product which comes out of it, I do not know what percentage, if any, goes into beverage alcohol, but it does go to supply the total demand for alcohol for industrial and beverage purposes in the country.

Representative HERTER. Has the Department of Agriculture made any effort to find out whether there are any agricultural products in long supply that might be substituted for the grain in the making of ethyl alcohol?

Mr. BRANNAN. We have an experimental plant, or one with which we have an arrangement for the use of agricultural surpluses.

Representative HERTER. I do not mean new ones. I mean that are in long supply at the present time, plenty of sugar in Cuba, at the moment, for instance. I do not know whether there are restrictions

on blackstrap molasses, but have you examined this problem from the point of view of having neutral spirits made from other than corn, which is in short supply?

Mr. BRANNAN. We have, sir.

Representative HERTER. What conclusion have you come to?

Mr. BRANNAN. We have come to the conclusion that you can make alcohol on a profitable basis from potatoes, if they are acquired cheaply enough by the distillers, but it is also always a relative question first of all as to the selling price of alcohol, the market price of it at a particular time, and the commodity, the raw product at the same time.

Senator FLANDERS. I would like to clear my mind on the law under which you are required to state the source from which the alcohol is distilled. Does that apply only to beverage spirits or does it also apply to spirits used in industry?

Mr. SERR. No, only to beverage; that is right.

Senator FLANDERS. It would seem possible, then, perhaps, to interdict the use, if there are other available supplies, interdict the use of grain for industrial uses. What proportions of the total neutral spirits goes into industrial uses and what into beverage use? Have you any figures on that?

Mr. SCHAFFER. Industrial alcohol from grain, now?

Senator FLANDERS. Talking about neutral spirits available either for industrial use, nonbeverage use or for beverage use.

Mr. SERR. When you talk about neutral spirits, let us get back to the term "alcohol." That is the product of alcohol plants, and it is produced for industrial purposes and for beverage purposes.

Senator FLANDERS. Is it the same thing?

Mr. SERR. As a chemical it is the same thing.

Senator FLANDERS. But you call it neutral spirits when you put it into whisky and call it alcohol when you put it into nonbeverage uses.

Mr. SERR. That is right.

Senator FLANDERS. It is the same thing; it has a definite chemical formula.

Mr. SERR. That is right. The percentage that comes from grain and from other sources varies during the year. Before the war about 12 to 15 percent came from grain; about 30 percent came from synthetic sources, petroleum, basically; the rest came from molasses.

Senator FLANDERS. The synthetic alcohol has a different chemical formula?

Mr. SERR. It is the same.

Senator WATKINS. What is the justification for allowing the export of these bread grains and feed grains to Latin American countries?

Mr. BRANNAN. The explanation of it is that after all, these folks have been our traditional customers. We are doing our best to maintain the export potential of this country on as vigorously and active basis as we can. These people have traditionally depended on the United States, among others, but greatly upon the United States for their food grains, and we are continuing to supply them. That is all.

Senator WATKINS. In other words, even though we are in an emergency here, that requires allocation and all of that sort of thing, you want to do business as usual with South and Latin America.

Mr. BRANNAN. I think, Senator Watkins, you have to recognize that what we are trying to do here is not a drastic step at all; the kind of

cooperation that we have asked from the distilling industry is not a drastic thing at all. It keeps them well in business, it keeps them abreast of their sales at the present time, and even permits them to put by some stocks.

Senator WATKINS. I am looking at a broader field than merely what you are proposing to do now with the distilling industry.

Mr. BRANNAN. The farmer has some real interest in this whole business because he does not want to see our export potentials dried up so that when the time comes when our production will be maybe somewhere near the neighborhood it is and our obligations to feed Europe will not be as great as they are, he will go back to his old customers in Latin America, and find that because he shut them off for a couple of years they have gone elsewhere or have initiated their own production capacity.

In short, what we are trying to achieve here is some reduction, very minimum reductions in our own economy to maintain our export relationships with the world, and at the same time achieve some of the special objectives which have arisen out of this war.

It is not a matter of calling upon this country for a tremendous sacrifice or any segment of the industry for a tremendous sacrifice, and I think if we were to put this question to any farmer in the country, he would say, "I want to try to keep our exports, the export avenues for our foods open as best we can," and that is what we are trying to do in addition to asking for some conservation among our own people.

Senator WATKINS. Of course, these people in the United States might argue the same way, they want to keep their customers. It strikes me that if it is such an emergency as the President has told us that it is, literally millions of people going with restricted diets, around 1,200 to 1,500 calories, when they ought to have 3,600, that South America, which is one of the richest agricultural sections in the world, ought to be able to feed itself without these bread grains for at least a little while until we get matters of that kind taken care of overseas.

Mr. BRANNAN. Perhaps it should but it is not, and it has always been a very good customer for our bread grains.

May I just answer the first sentence? We are not asking anybody in the distillery industry to give up a single customer. The goods which they will bottle this year and next year are already available and in stock. There is anywhere from 4 to 6 years, as a matter of fact, of stocks on hand and therefore they are not sacrificing a single customer, if we were to ask them to shut down completely for 1 year or more.

Senator WATKINS. There will come a time of course when they will feel the effect of not producing now.

Mr. BRANNAN. Perhaps, but as long as there is this blending, wide acceptance of blended whiskey, I am not sure that that is a very imminent thing.

Senator WATKINS. Secretary Harriman I think told the Joint Economic Report Committee that the reason for shipping steel and all of these other things to South America was that America did not want to become an economic isolationist country, and I wondered if that is the same theory on which you are now permitting the export of these food grains and bread grains to South America, when probably these countries, if they were cut off, could take care of themselves without

any distress. They are certainly not countries that are suffering as the result of the war.

Mr. BRANNAN. No, they are not. First of all, if it is necessary, I would like to subscribe to what Secretary Harriman said. I do not think it is necessarily applicable or controlling in this situation. We are feeding South America and the Islands, the Caribbean Islands, because they have traditionally depended upon us for food. If we shut them off, they would be in very serious condition.

Take Cuba, for example. Cuba raises almost exclusively sugar, and very little of the other foods that it needs. It is dependent upon this country for the other foods that it needs, and out of that has grown a generally successful trade between the United States and Cuba. And I think the most dire results could be expected to happen if we were to cut them off from the supplies of feed grains and food grains which they previously obtained in this country.

Senator WATKINS. What about Brazil? That is right next door to Argentina, one of the heavy producing grain sections of the world. I note you have so many thousand tons of these grains going to Argentina.

Mr. BRANNAN. Senator, it is another question, I mean it is a whole other area to be explored, but even Brazil has been dependent upon us for food grains.

Senator WATKINS. Notwithstanding they get them next door from Argentina and shipping them to Europe.

Mr. BRANNAN. Notwithstanding that. You will remember that Argentina has not always been a great grain producer and within the past 2 or 3 years had very serious difficulties of their own, and its production was down low. That is true of Australia, and it is true of some other countries.

Senator WATKINS. It has been an exporter for years of wheat, has it not?

Mr. BRANNAN. Yes; but again I say that we ought to look at this also from the standpoint of the American farmer, and the American exporter. If he can get into the Brazilian market and hold the Brazilian market, as an outlet for American agricultural products and nobody is asked to make a tremendous sacrifice in order for him to do so, then I say we ought to encourage him to do it.

If we were asking for a tremendous sacrifice in order to make it possible for him to do so, I think we would have another question.

Senator WATKINS. May I suggest that the shipment of these bread grains for instance to South America has some effect apparently on the price of wheat in the United States. American consumers, the housewife, these people whom the administration claims are in distress are certainly being called on to make sacrifices to permit that, are they not?

Mr. BRANNAN. Well, I would just like to say that if we had not exported considerable amounts of grain from this country, the price situation might have been much more serious than it is today, particularly for our farmers.

Senator BUCK. Say that again, Mr. Secretary. If we had not exported the grain price situation would have been more serious?

Mr. BRANNAN. The price of grain to farmers might have been much different than it is today.

Senator WATKINS. That would have been some help.

Senator BUCK. It would have been lower?

Mr. BRANNAN. Lower, yes.

Senator BUCK. That is where we want it, is it not?

Mr. BRANNAN. Senator, that is for you to say.

Senator WATKINS. Is not that what the administration has been saying? That is why they want price control and rationing, and all of that sort of thing.

Mr. BRANNAN. We want an equitable distribution of it. We want fair prices for the farmers and we want fair prices to the consumers, and you can get that and still fulfill some of the foreign commitments which this country has after careful study by the Congress decided to undertake.

Senator WATKINS. It seems to me that the whole policy is business as usual with South America, but in this country not business as usual, but under restrictions and under controls.

Mr. BRANNAN. I suppose you can come to that conclusion, and I would say that I would be forced to agree with you, if we were asking any segment of the industry to make any appreciable sacrifice.

Senator WATKINS. Let us get over to the consumers, to the general public in the United States, the people that we have been talking about, that are in distress, and it was suggested from the administration that we give it power to have rationing and price controls and all that sort of thing.

That is the group that I am thinking about now, and it has relationship of course to the entire economic picture of the United States. That is why I asked you the question, what is the justification for shipping their business as usual there when we do not have business as usual in the United States?

Those people, if they were starving and in distress like in Europe, I could see the answer to that; probably I ought not to pursue it further, but I wanted to find out what the justification was.

Mr. BRANNAN. Congress did consider it when it passed upon the interim bill, and will consider that again when they pass upon the Marshall plan.

Representative BENDER. Secretary Brannan, in this order that you asked to be renewed that expired on January 31, in the first paragraph, Secretary Anderson says—in fact repeats himself:

Fulfillment of requirements for defense and for essential civilian needs has resulted in shortage of supply of grain for defense needs, for private account, and for export, and the following order is deemed necessary and appropriate in the public interest to promote the national defense.

How does this national defense come into that? Is that still part of your request? How does the figure come into it of all of these exports to South America, and so on?

Mr. BRANNAN. I think we are trying to quote the law there, that is all.

Representative BENDER. That is still in the picture, national defense, is that correct?

Mr. BRANNAN. That is a matter for the War Department to answer. I certainly am no expert on that. It is part of the quotation, comes out of the statute, I believe.

Representative BENDER. I know that quite a play is made on national defense, and I just wondered how much that figured into this picture and how much there was a part of the program.

Mr. BRANNAN. The explanation of course for the language arises out of the fact that Congress acted upon that legislation in very short order, and in order to expedite their action, they went back and picked up language which was in effect in the original act during the war, and just said, "We reenact that language."

Representative BENDER. You just keep on talking about defense and the war and continue using that language because it is easy, makes it easier to put over, is that correct?

Mr. BRANNAN. Well, now, I do not know what you are talking about trying to put over.

Representative BENDER. I do not know.

Mr. BRANNAN. But the point is that this language was adopted by the Congress, and we just used it in the order. It is a customary drafting procedure.

Representative BENDER. I see. Are there any other questions?

Senator WATKINS. I wanted to ask if Mr. Brannan can tell us now whether or not the shipments of bread grains and feed grains to South America were more in 1947 than they were in the previous year.

Mr. BRANNAN. We probably can answer that here; if you would rather it should be supplied for the record, we can do that.

Senator WATKINS. But if you can show us, say, for the last 5 years what the shipments have been to South America, to the various countries you have named here for bread and for feed grains, we would appreciate having that information.

Mr. BRANNAN. Yes, sir.

Representative BENDER. Thank you very much.

Mr. BRANNAN. Thank you.

Representative BENDER. Mr. Howard Walton is the next witness, president of the Hiram Walker company, Peoria, Ill.

STATEMENT OF HOWARD R. WALTON, PRESIDENT OF HIRAM WALKER & SONS, INC., PEORIA, ILL.

Mr. WALTON. I am indeed grateful for this opportunity to bring to your attention some facts which this committee should seriously consider if it concludes that legislation such as that recently requested by the President is necessary in the public interest and for national defense.

As you may have learned, there has been great dissatisfaction in the beverage-distilling industry with the formula used in the past by the administration in allocating the available grain among members of the industry. The formula has been, I think, unfair and inequitable in that it recognizes capacity of plants as a factor. There is probably only one member of the industry that will strenuously disagree with this statement, but it so happens that this member has been favored not only by the most recent formula but by previous formulas at the expense of its competitors. I think I should say that member is Publicker Industries, in Philadelphia, in order to identify the member. It is important that any future formulas correct this inequity if time-honored business principles and practices are to be preserved.

We seek only a formula that will be fair to all members of the industry. We are not proposing that Congress determine how much grain should be permitted to be used by the distilling industry. Even though we may think the Secretary of Agriculture has permitted the

use of less grain than the supply would justify, we recognize that the amount allocable to the industry should probably be left with the executive branch of the Government. But once the amount is determined the Congress should require that it be allocated on a fair basis.

There are about four bases of allocation which have been suggested from time to time:

1. Allocate on the basis of mashing capacity of each distiller;
2. Allocate on the basis of the sale of cased goods within a given period;
3. Allocate on the basis of the historical use of grain, that is, prewar use; and
4. Allocate on the basis of the use of grain during a representative period since grain became unrestricted as to quantity.

For a proper understanding of the formulas heretofore used it is necessary to understand the position of the one member of the industry previously referred to. Prior to the war it was predominantly a producer of industrial alcohol from molasses and produced a relatively small proportion of the industry's output of distilled spirits for beverage purposes. During the war it expanded greatly its grain-mashing facilities, largely with money which we understand was loaned it by RFC and Defense Plants Corporation. As is well known all distillers during the war used their facilities for producing war alcohol, with only brief periods permitted by the Government for producing distilled spirits for beverage purposes.

After the war this member found itself with enlarged grain capacity so that today its mashing capacity is much greater than that of any other company. It therefore welcomes any formula, such as those previously followed by the Secretary of Agriculture, which give weight to the capacity factor, because as other companies are restricted it will hold a substantial advantage over other members of the industry as it will thus be enabled to produce neutral spirits to sell to the old-established companies for use by them, a situation which has existed in the past. This result, we insist, is not only unfair and inequitable but also has the effect of stifling competition and is highly inflationary.

We, too, would have benefited from the allocation formulas heretofore used if plans of the War Production Board for Hiram Walker to design, build, and operate an additional alcohol plant during the war period had not been canceled by WPB after all the preliminary details had been agreed upon. This decision of WPB, plus the fact that we have not acquired any additional plants in recent years, results in our being penalized by any formula which gives any weight to plant capacity. For instance, our 1939-41 use of grain would have earned us over 12 percent of the total allocation, whereas the most recent Government formula gave us approximately 7 percent.

To use the formula based upon prewar use would cut this previously favored member down too far because it used a relatively small percentage of the grain prior to the war for the production of distilled spirits for beverage purposes, so that while there is substantial merit to such a formula, we believe under all the circumstances it is fairer to use the one we later suggest.

The use of the sale of cased goods as the formula results in administrative difficulties which we think should be avoided.

The postwar controls over grain remained in force from month to month for almost a year longer than the Department of Agriculture had predicted. It was December 1946 before the industry was allowed unrestricted quantities of grain. We logically believed that the allocation of grain was at long last a thing of the past. From that time on, from December 1946, every distiller must have operated his plants on whatever production schedules his judgment dictated in the light of his company's prospects in open competition without any anticipation of either advantage or disadvantage for his enterprise due to further Government allocations. This period of free and open competition ran from December 1946 into September 1947 when the industry heard the first rumors of a revival of controls. However, many plants, particularly in Kentucky—we do not happen to have a plant down there; this applies to Kentucky—close down under normal operating conditions in the months of July and August due to warm weather and lack of adequate water supply. Consequently, we think it fair to disregard these 2 months in arriving at an equitable formula.

Our proposal takes as the formula the amount of grain used between December 1, 1946, and June 30, 1947, inclusive, as the yardstick for the allocation of future grain set aside by the President for this industry's use.

We suggest this formula because the wartime controls on the quantity use of grain by distillers ended with November 1946, so that for the period beginning December 1, 1946, and ending June 30, 1947, each company was free to use whatever it thought proper in its own business. There were no governmental restrictions as to quantity. During that 7-month period, therefore, each company used whatever seemed appropriate to its own needs in replenishing its inventory for later sale to consumers. This applies to all types of distillers of beverage spirits—those who produce and sell in bulk, those who produce and sell case goods, and those who do both. In other words, it is the fairest test of what a company thought it needed in view of the consumer acceptance of its products and this at a time when all companies today engaged in the production of distilled spirits for beverage purposes, including the member previously referred to, were actively in this business.

In the second place the formula is a simple one which can easily be administered. The Alcohol Tax Unit of the Treasury Department is fully advised on the total grain consumed by the industry between December 1, 1946, and June 30, 1947, and what percentage of the total was used by each member. The proposal therefore prescribes a fair formula and one easily administered. Further, it will eliminate present unfairness which permits one company that does about 6 percent of the cased goods business to obtain 14 percent of the industry's grain allocation, whereas other companies with considerably larger case sales all receive smaller grain allocations. It is a formula that every member of the industry must admit is fair and all members, we believe, would support it except one.

In order to encourage the operation of the small plants we believe it advisable to provide each of them with a minimum quantity of 6,000 bushels of grain per month, as has been done in the past.

I cannot conclude my remarks without commenting on various statements made in the press and in the Houses of Congress by certain

high governmental officials to the effect that the distilling industry has stocks of whisky on hand representing 6 years' supply. Some have even gone so far as to say the industry's stock position warrants shutting it down entirely for a year. Such statements are not only misleading but they show that those responsible for them fail to understand the figures which they so glibly quote. If this industry were shut down for 3 months I think I am safe in saying that only a very few companies would be left with any neutral spirits for blending purposes. True, there may be the odd company with more than 6 years' supply of whisky on hand under any and all conditions, but let's not give the impression that all are in that position.

The President has stated in his message to the Congress of January 29, and I quote:

The average stocks of whisky on hand now are approximately equal in quantity to the stocks which were normally on hand prior to the war, but due to the greatly increased sale of blended whisky at the present time, the stocks represent a 6-year supply even at the present high rate of consumption. No additional build-up in stocks, therefore, is justified, and the industry can withstand a substantial depletion of its present stocks without undue hardship.

Now the President must assume in making this statement that all members of the industry have had an equal chance to rebuild their depleted inventories during the past 2½ years. I maintain that this is not the case, inasmuch as the formulas used in allocating grain to industry members when grain use was restricted during this period, which gave weight to plant capacity, greatly favored one industry member at the expense of others. Hiram Walker has been severely penalized by these formulas used in the past, as is best indicated by the following figures: Between June 30, 1945, and June 30, 1946, the industry increased its whisky stocks by 21.8 percent; ours decreased 6 percent. Between June 30, 1946, and June 30, 1947, the industry increased its whisky stocks by 24 percent. During this latter period, largely due to 7 months of unrestricted grain use, we were able to increase ours 11.6 percent. Looking at the whole 2-year period—that is, between June 30, 1945, and June 30, 1947—the industry increased its whisky stocks 51 percent, whereas the Hiram Walker increase was only 5 percent. There are many other companies that have been similarly penalized and that's why we urge the inclusion of an allocation formula which disregards plant capacity and recognizes the amount of grain used between December 1, 1946, and June 30, 1947, as the yardstick in any legislation which the Congress may decide is necessary in response to the President's recent request.

Summarizing my statement, Hiram Walker is not proposing that Congress determine how much grain should be permitted to be used by the distilling industry. We have always recognized, and we recognize now, that the amount allocable to the industry should probably be left with the executive branch of the Government. There has been great dissatisfaction in the industry with the formulas used in the past by the administration in allocating the available grain. We contend that those used in the past have been unfair and inequitable. We believe sincerely that our proposal presents a fair formula, one easily administered and one which the large majority of the industry members would welcome.

Representative BENDER. Are there any questions, gentlemen?

Representative **HERTER**. I am assuming from your testimony here that in the efforts to reach voluntary agreements in the past, the industry has been pretty well divided up; that the distillers on one side and industry on the other side have been at loggerheads.

Mr. **WALTON**. One company has been greatly favored all during the last 2½-year period. This company, as Under Secretary Brannan told you, received its allocation—rather did not receive its allocation, but sued the Government when the Reconversion Act was in effect, and an attempt was made by the Administration to reduce the percentage of grain they were receiving, and percentage of their allocation—at the time they were getting about 28 percent—and they won their case. My understanding is that they won it on the basis of the Reconversion Act, which stated that all companies that expanded their facilities had an equal right to go along and do business.

Since then they have been reduced, since the Reconversion Act has been out of effect since last June—they have been reduced to about 14 percent at the present time; a little over 14 percent. But they have been favored greatly, and of course we have paid the penalty, as I have outlined or tried to outline to you here.

I think there are other companies have paid the penalty. I think if you examine the stock position in Pennsylvania, where their main plants are located, you will find what has taken place in the last 2½-year period. If you will compare the Pennsylvania figures with Illinois, for instance, you will be astounded.

I have them here if you want me to put them in the record.

Representative **HERTER**. Are these the figures of the stocks on hand?

Mr. **WALTON**. These are the whisky stocks for different dates.

Representative **HERTER**. Or neutral spirits?

Mr. **WALTON**. These are just whisky, not neutral spirits. We do not have access to the neutral spirits stocks; the Alcohol Tax Unit does, but the industry does not.

For instance, in the prewar years 1939, 1940, and 1941, Illinois distilleries used over 21 percent of the total grain used by distillers. But the January allocation cut the Illinois distilleries to about 12.3 percent. That is this past January.

In the prewar years 1939, 1940, and 1941, Pennsylvania distilleries used less than 7 percent of the total grain used by distilleries, but the January 1948 allocation gave the Pennsylvania distilleries 20 percent. That is a pretty big swing—almost three times the amount that prewar use would have suggested.

Now, on June 30, 1941, the Illinois inventory of whisky in storage was over, or was about, 16 percent of the United States total. At the end of December 1947, it was down to 12 percent. Pennsylvania, during that period, has gone up considerably.

Representative **HERTER**. You say that you think the formula you are proposing, historical formula based on this period from December to June of last year, would be fair to everybody. How does that affect the relationship? Have you any figures to show how it would?

Mr. **WALTON**. That would cut them down, I believe, Mr. Herter, to somewhere around 6 to 7 percent. I am not positive exactly what it would be. But it would cut them somewhere from around 14 down to between 6 and 7.

Incidentally it would increase us, if I may interrupt a moment, it will increase our percentage from about 7 to 8.4. So am I asking for a lot?

Representative HERTER. It would not make a very large difference. In that particular case is the difference between their capacity and what they used in that period due to the fact that they had large inventories on hand, and were therefore not producing as much as the others were?

Mr. WALTON. They produced—I believe the record will show that they produced very heavily during December 1946, January, February, and March of 1947, and then they dropped off very abruptly, so that their usage during the months of April, May, and June was negligible.

Representative HERTER. So that if you took your historic period and left those 3 months out, it would change the formula all over again.

Mr. WALTON. Yes, it certainly would; it certainly would.

Representative BENDER. Any other questions?

Senator COOPER. May I ask one question?

After the voluntary allocation was agreed on last fall, is it true that after that time this company of which you are speaking began to sell increased amounts of neutral spirits to other distillers?

Mr. WALTON. I think it is true, Senator Cooper.

Senator COOPER. Do you know whether or not the price was raised?

Mr. WALTON. I know the price was raised.

Senator COOPER. How much?

Mr. WALTON. Well, I think you could buy neutral spirits early last fall for around 65 cents a proof gallon. I know we are paying today \$1.25 a proof gallon.

Senator COOPER. Do you know whether this particular company, Publicker, after the voluntary allocations had been entered into, in which you state gave them a favorable position—

Mr. WALTON. Yes.

Senator COOPER. Do you know whether they raised the price on the neutral spirits to other distillers?

Mr. WALTON. I do not know that definitely, because we were not customers of theirs back in the fall months, but I have no idea that it did, because the market was freely quoted around 65 cents for early last fall, and I had no quotations from them, but I have an idea they were selling at the market price.

Representative BENDER. Are there any further questions?

If not, the committee will stand recessed until 2 o'clock, at which time Mr. Joyce, of National Distillers, and Dr. Shipman, of Brown-Forman & Co., will be the first witnesses.

We will meet at 2 o'clock in this room.

(Thereupon at 12:45 p. m., a recess was taken until 2 p. m., the same day.)

AFTERNOON SESSION

(The committee resumer at 2 p. m., after the expiration of the recess.)

Representative HERTER (presiding). The committee will come to order.

I have just heard from Senator Flanders, and he will be here in a minute, but he wants us to try to keep on time and continue the hearing.

The next witness, I think, is Mr. Joyce.

Is Mr. Joyce here?

Mr. JOYCE. Yes, sir.

Representative HERTER. I apologize for being the only member of the committee present. I am hoping others will be here any moment. You may proceed, Mr. Joyce.

STATEMENT OF R. E. JOYCE, VICE PRESIDENT, DISTILLED SPIRITS INSTITUTE

Mr. JOYCE. Mr. Chairman, I am appearing as vice president of the Distilled Spirits Institute, a trade association which represents approximately 65 percent of the beverage-distilling industry.

Let me say at the outset that we have at all times tried to cooperate with all grain-conservation plans and if there is a national emergency which threatens the national security and welfare of the United States, the beverage-distilling industry is ready and willing to make their fair contribution to relieve such emergency. Their past record during and after the war speaks for itself in this connection. It was one of the first industries to convert their facilities to war manufacture and the 750,000,000 gallons of alcohol delivered to the Government for the manufacture of munitions and synthetic rubber played an essential part in the winning of the war. They were the only industry to make a gift of food to relieve the hunger in Europe immediately following the close of the war. In response to an appeal from the late Mayor LaGuardia, then head of the United Nations Relief and Rehabilitation Administration, this industry then purchased and gave to that organization more than 25,000,000 pounds of grain for shipment to Europe.

If conditions necessitate it, we are willing to make a further sacrifice at this time but we are not convinced that present conditions necessitate the drastic restriction of grain imposed upon the industry during January. Statements of the leaders of the present administration leave us confused as to the real condition of our grain supplies and inasmuch as we do not have access to information which shows the needs of the European countries to which grain shipments are to be made and the uses to which they intend to put this grain, we are not in a position to accurately appraise the situation. If our feeling that drastic grain restrictions for distilling are not necessary is wrong and we admit that possibility, then we say that we are entitled to know the extent of the shortage and the need for such a drastic reduction as that covered by the order of the Secretary of Agriculture for operations during the month of January by which he limited the use for distilling $2\frac{1}{2}$ million bushels, and, of more importance, we have a right to demand that any future allocations be based upon a formula which equitably distributes the quantity of grain to all users, and that such basis should not include a factor of plant capacity which results in giving one company which does only 6.3 percent of the business, an allocation of 14.8 percent of the grain.

Our confusion as to whether or not a real grain shortage exists goes back to early last fall when it was announced that our export needs of grain were 470,000,000 bushels, of which 450,000,000 bushels were

wheat. In September it was stated that this estimate was incorrect and that our export needs were 570,000,000 bushels of which 500,000,000 bushels were wheat. At this time the President appointed the Citizens Food Committee, headed by Mr. Charles Luckman, whose job was to find an extra 100,000,000 bushels of grain. Mr. Luckman called upon industry, the farmer, and the public to participate in various grain conserving programs which included the request to the liquor industry to close down its plants for a 60-day period.

On December 18, 1947, Mr. Luckman reported to the President that the work of his committee had been completed and that a saving of grain of between 90 and 120 million bushels had been effected. The country had, therefore, secured the extra 100 million bushels needed by the revised export estimates. Since that time unexpected quantities of grain have been made available for the European countries from Russia, Belgium, Poland, the Argentine, and other foreign countries, made possible through an exchange for steel and heavy machinery.

Statements of administration leaders have done little to clarify our confusion on this point. Secretary Anderson appearing before the Committee on Foreign Relations January 13, 1948, stated:

There is plenty of wheat in this country, after our export program is taken out to be more than a normal crop.

On November 26, 1947, before the Banking and Currency Committee of the House, Secretary Anderson stated the wheat crop including the carry-over to be 1,491,000,000 bushels; that our domestic needs were 845,000,000 bushels, leaving 646,000,000 bushels for export and carry-over needs and that providing a carry-over of 150,000,000 bushels approximately 500,000,000 bushels could be exported. The Secretary goes on to say that as of November 19, the Commodity Credit Corporation owned or had purchased 265,000,000 bushels of wheat which when added to 66,000,000 bushels of commercial shipments scheduled makes 331,000,000 bushels of wheat actually accounted for.

Yet Mr. Brannon, Assistant Secretary of Agriculture, testifying before the House Banking and Currency Committee, stated on January 26 that only 258,000,000 bushels of wheat had been exported up to January 1, 1948.

On December 9 Secretary Anderson told the National Production and Marketing Administration conference in a speech at Colorado Springs, Colo., that the wheat crop was 1,470,000,000 bushels; that we were planning to export 450,000,000 bushels which leaves 957,000,000 bushels and "we have never used that much."

Early in January the Cabinet Food Committee reported to the President that our total export needs of wheat for the year June 30, 1948, had been reduced from 500,000,000 to 450,000,000 bushels yet the report before you states that we should endeavor to export 500,000,000 bushels from the crop harvested in 1947. So you can pardon us if we are confused as to the extent of grain conservation if any, necessary to meet our foreign requirements.

We in the Distilled Spirits Institute, do believe, however, that any contribution required of us would be in relation to that of other users and above all should be based upon a fair formula which would equitably distribute whatever allocation is determined fairly among all users.

Much has been said of the fact that voluntary agreements to save grain have been entered into with other industries which are users of grain but that such a voluntary agreement was impossible with the distilling industry and that it was, therefore, necessary to come to Congress and request a law to allocate grain to this industry.

Let us look at some of the voluntary agreements executed under the Luckman committee with these other industries. The wet- and dry-corn millers agreed through such a voluntary arrangement to conserve grain by making the maximum use of perishable high-moisture corn. A certain quantity of high-moisture corn exists in every crop, and industry, including the distilling industry, has always found ways and means to use it. The agreement with the wet and dry millers does not restrict their total use of grain, it merely encourages them to use the high-moisture corn. It does not affect the total output of their products or create labor difficulties for them.

The brewing industry agreed in such a voluntary agreement to make a reduction of 25 percent in the quantity of corn used in the manufacture of their product and to use no wheat or table-grade rice. The effect of this agreement is merely to substitute the use of one grain for another. It did not reduce the total amount of grain used by that industry. As a matter of fact, the total grains used by the brewers for the months of November and December, during which time the liquor industry was completely closed down, exceeded their use of grain during the corresponding months a year ago.

The efforts to effect a voluntary agreement with the bakers have resulted merely in a request of the Government to discontinue the practice of consignment selling. This request has to date not been complied with by that industry.

The real saving of grain was effected at the farm level in the request to the farmers to reduce their poultry flocks and to send their hogs and cattle to market at less than maximum weight.

We, in the distilling industry, were given no opportunity to negotiate an agreement to reduce our use of corn and substitute other grains, or to limit our use of corn to the high-moisture grades. On the contrary the distilling industry was called together by the Secretary of Agriculture and handed in mimeograph form the voluntary agreement which they were expected to sign with the statement that if you don't agree to this we will go to Congress and get a law. It appears to us that a limitation of $2\frac{1}{2}$ million bushels per month for the entire distilling industry as suggested in the report now before your committee amounts to discrimination against that industry in comparison with the minor contribution requested of other industries.

We are likewise puzzled as to the request of the administration for legislation to allocate grain to a single industry. No effective voluntary agreement has been reached with the baking industry, yet no request has been made of Congress for a law to regulate grain to that industry. The voluntary agreement, such as it was, with the brewing industry, expired January 31, 1948. The proposal for a further voluntary agreement with that industry has not been accepted and there is no agreement in effect today which would limit the grain used by that industry. Yet no request has been made of Congress for a law to control the grain used in the manufacture of beer. And no request has been made for a law to control the grain used by the wet and dry millers.

Representative HART. Mr. Joyce, what is a "wet miller?"

Mr. JOYCE. I was afraid you were going to ask me that question. I know they are an industry that uses a considerable quantity of grain. Corn syrup and starch are their principal products of manufacture.

Representative HART. And do they use this high-moisture grain exclusively? Is there any relationship between that and their name "wet miller?" Where is that derived from?

Mr. JOYCE. No; that is in the process of manufacture. They take the grain and add water to it in order to produce their starch and their finished product.

Representative HART. Thank you.

Representative HERTER. Will you proceed, Mr. Joyce?

Mr. JOYCE. Section 6 of Public Law 395 speaks of the control of commodities and requires a report setting forth the degree of curtailment in current and prospective use of each commodity by each user thereof. It does not appear to us that a report which merely sets forth a proposed curtailment for one user of a commodity meets the requirements of the statute nor do we believe Congress should be asked to enact legislation to control the use of grain by a single industry.

As to the extent of the proposed curtailment let us look at the proposed reduction to 2,500,000 bushels, which the report now before you indicates would be the maximum quantity allowed this industry per month through October 31, 1948, if the legislation requested is enacted. The report states that the industry used during the fiscal year June 30, 1947, 59,000,000 bushels of grain during which time the inventory of whisky was increased by 90,000,000 gallons, and that eliminating the grain necessary for such increase in stocks the industry would need approximately 3,250,000 bushels for replacement purposes, and that the proposed amount of 2,500,000 bushels a month is equivalent to only a 23-percent reduction in the use of grain.

We must take issue with these mathematics for they fail to give any consideration to the effect of the 60-day shut-down during which the industry used no grain. If the calculation is continued on an annual basis it will be apparent that the industry would receive only 25,000,000 bushels during the fiscal year ending October 31, 1948, and assuming the same quantity is necessary for replacement of stocks the proposed allocation would result in a decrease of 36 percent below replacement needs. Certainly a reduction of 36 percent below replacement needs is entirely out of line with savings which have been requested of other industries.

Returning to the question of a voluntary agreement the report makes reference to the failure to effect such an agreement with the industry. As a matter of fact no attempt has been made to effect a voluntary agreement with the industry since passage of Public Law 395, and as we read the act, the administration is not in a position to request a recommendation from this committee to Congress for the enactment of a law until negotiations for a voluntary agreement under that act have failed.

It should be remembered that the Distilled Spirits Institute proposed to the Department of Agriculture a plan for the voluntary rationing of grain for distilling after the end of the 60-day voluntary shut-down. This plan was proposed after several weeks of study and discussion and would have allocated grain on a basis of the actual

grain by each plant during a period after corn was decontrolled. It was assumed that since all plants were free to operate as they saw fit during this period that each plant operated according to its needs and that this formed a fair and equitable basis for grain allocation. It provided for a 6,000-bushel monthly minimum for small plants and also for relief of individual hardship cases. This plan would have given the industry 3,500,000 bushels of grain per month.

At the open industry meeting of December 17 only one distiller present voted against voluntarily adopting this plan. That one, the Publicker Co., was an industrial alcohol producer who stood to gain a large competitive advantage by a continuation of the Agriculture Department formula which was based on plant activity, and who at the same time had the free use of grain for industrial alcohol production. The Secretary of Agriculture turned this plan down and indicated that the 3,500,000-bushel quantity was too high, and informed the meeting that unless agreement was reached on his proposal of 2½ million bushels per month based upon a formula giving 50 percent weight to capacity that he would be forced to go to Congress and request legislation.

We felt then and we feel now that the quantity of 2½ million bushels per month is insufficient and will result in shortages and unemployment. As mentioned previously, however, our chief concern is the basis of allocation, if such allocation should be found necessary. If you gentlemen should determine that world conditions necessitated a law controlling the use of grain for distilling then we ask that the basis of allocation of such not be plant capacity or any method which gives any weight whatsoever to plant capacity.

Due to the fact that the Government built several large industrial alcohol plants and enlarged or converted several others from molasses to grain, so as to obtain the maximum quantity of alcohol from grain for war purposes, these large units, not historically in the beverage industry, get the lion's share of the grain allocated for beverage purposes under any formula giving weight to plant capacity.

In 1946 the Department of Agriculture, under a plant capacity formula, allocated over 27 percent of the total grain for beverage purposes to one company which before the war did less than 3 percent of the beverage business in the country.

Under the grain-allocation plan in effect last month, which is based two-thirds on historic use and one-third on plant capacity, this same company, now accounting for about 6.3 percent of the sales, gets 14.8 percent of the grain, while another company selling 17.4 percent of the total whisky gets only 6.9 percent of the total grain.

We therefore respectfully request that if the Congress enacts legislation the effect of which is to restrict the use of grain by our industry, that they provide a method of allocation based on the historic use of grain during a given base period, as a part of such legislation.

Mr. Howard Walton testified this morning, suggested before the House Banking and Currency Committee the 7-month period December 1946 through June 1947 as a proper base period for use. The institute has had no meeting since that suggestion was made and while I cannot speak for all the members, I feel certain that the suggestion will meet with the approval of the membership. I know it is satisfactory to my own company.

Of utmost importance to this committee is the extent of saving which would result from curtailing the use of grain by distillers. It is our contention that the distilling industry is not truly a consumer of grain but is a grain processor which processes less than 1 percent of the total grain crop. In our distilling process we extract only the starch from the grain and return a byproduct to the farm in the form of high protein feed. If these byproduct feeds are not available to the farmer he must feed additional quantities of whole grain to his livestock. Dr. Shipman, who will follow me, will tell you more in detail about the feeding value of these byproducts.

Representative HERTER. Is there anything more you would like to add to that, Mr. Joyce?

Mr. JOYCE. I would like to touch on one point which was covered, I think, in some of the questioning this morning, relating to the adequacy of the 2½-million-bushel allocation granted the industry last month.

I think Mr. Brannan testified that 11 percent of the whisky sold was straight whisky and 89 percent was blended whisky, and that of the 89 percent, 66⅔ percent was neutral spirits.

Neutral spirit is not normally aged. There are one or two companies who feel that they improve their neutral spirits by aging them.

The result is that the stock of neutral spirits which appears to be in existence by the records of the Alcohol Tax Unit is in the hands of relatively one or two companies.

The balance of the industry makes its neutral spirits as it uses them.

Now, the spirits necessary to make up that 66⅔ percent of the blended whisky, which is 89 percent of the whisky sold, must be made currently and must be made before the producers can put away whisky for further aging.

The actual effect can be illustrated best by the effect on my own company.

Under the allocation that we got from the 2½ million, which was distributed on the formula again suggested in this report, my company, National Distillers Products, gets only a few thousand bushels of grain over and above that necessary to meet its current neutral-spirit requirements. And that is so even after we have reduced to a certain extent our sales of gin, curtailed the sales of gin a little in order to get within that limitation.

So while 2½ million bushels sounds like a lot of bushels, when you divide it among 125 or 130 plants, and when the division is based upon a formula which we feel is inequitable in giving consideration to the capacity of the plants and not previous use, the quantities to many of the companies are really below the point where they can keep pace with their current sales.

Representative HERTER. As I understood Mr. Brannan this morning, he testified to the effect that this conservation program would not interfere in any way with the plans of the usual trade of the various distillers that they would feel obliged to fill the needs of. But I gather from what you are saying, with this curtailed amount of grain to be distributed among the various elements in the industry, that if you make whisky enough to set aside for aging, then you will be obliged to buy neutral spirits from the one or two companies that have these reserves that he mentioned.

I think it was 40,000,000 gallons in one case and 20,000,000 gallons in another.

In other words, you would then have to buy your neutral spirits from those particular concerns without being able to make your own to take care of your own needs; is that right?

Mr. JOYCE. That is quite right.

Representative HERTER. If that should be the case, has there been any consideration with respect to the price at which you would buy? If you have to fill your customers' needs, and have to blend your whisky or make your gin, and have to buy the neutral spirits for that purpose, it means you have only one or two individuals from whom you can buy?

Mr. JOYCE. We might have a few more than one or two, but the number and the condition of the market would be so limited that you would pay a price which in normal times would be unheard of for neutral spirits.

Representative HERTER. When you speak of that price, have you figured it out? Have you figured the differential of what you would have to buy and what you could make it for?

Mr. JOYCE. Assuming the difference in the market price?

Representative HERTER. Assuming you make your own, you must know the cost to yourself at the present price of grain. What is the spread between the market you can buy for and what you can make it for yourself?

Mr. JOYCE. What you pay outside would be about 150 percent of what it would cost you to make it.

Representative HERTER. On the market today?

Mr. JOYCE. An increase of 150 percent.

Representative HERTER. Just from a business point of view, you would have to pay that premium because you were unable to make your own neutral spirits?

Mr. JOYCE. That is right.

Representative HERTER. Any questions, Mr. Hart?

Representative HART. At the bottom of page 2, Mr. Joyce, you referred to grain made available for European countries, by certain nations named there. Do you have any figures to indicate the amount of the grain that was thus made available by those countries mentioned?

Mr. JOYCE. No, sir; I do not.

Outside of the International Emergency Food Council, which is the Council referred to by Mr. Brannan this morning, who gets the needs for these various countries, I doubt whether that information is available.

Representative HART. The objection to the formula you mentioned, is that your sole objection to that formula—the fact they do not take into consideration the historic use of the plants but base it rather upon productive capacity? Are there any other objections the industry has to the formula as it now exists or is proposed?

Mr. JOYCE. No, sir. I think they are quite in agreement with the minimum for 6,000 bushels for the small plants; believe that there should be a hardship provision to take care of unusual circumstances; and believe that the formula should rest on the use over some selected representative period of time.

Representative HART. With respect to the use of grains by the brewing industry, if they observed the agreement and reduced the use of corn by 25 percent and did not use any wheat or table-grade rice, what did they use to justify the statement that they used more total grains during November and December than they had used in the previous year in the same period?

Mr. JOYCE. The use was primarily of barley.

Representative HART. Almost altogether?

Mr. JOYCE. I think it would be safe to say it was practically barley. They may have picked up a few other small grains, but the substitution was almost entirely barley for the reduced quantity of corn.

Representative HART. You speak about a reduction of 36 percent below former replacement need, and you say that is out of line with savings requested of other industries.

What would be in line, that is, what percentage would be in line with the savings requested of other industries if 36 percent is excessive?

Mr. JOYCE. Giving you my personal feeling on it, it should be somewhere within the neighborhood of 3,250,000 bushels mentioned in the President's report, which would be necessary merely to keep the inventory at its present rate.

Representative HART. That would be as compared with the proposed 21½ million bushels?

Mr. JOYCE. That is right. But that quantity we are perfectly willing to leave to this committee if they feel it desirable to fix such a quantity.

Representative HART. What have you to say with respect to Mr. Brannan's statement this morning that there were plenty of feeds available to the farmer that will provide the necessary vitamins without using the byproduct feeds from your industry? Or will Dr. Shipman take care of that?

Mr. JOYCE. In order to conserve the time of the committee, I think Dr. Shipman will go into that.

Representative HART. Thank you. That is all, Mr. Chairman.

Senator FLANDERS. I would like to ask you, sir, if you have, or can refer us to, monthly figures of distillings in the industry as a whole; that is, not merely your group but in the industry as a whole, for the months of this year.

Do you have those figures available, or so far as you know, are they obtainable?

Mr. JOYCE. Would you like them to reflect the number of gallons distilled or the number of bushels used?

Senator FLANDERS. One in a way, I suppose, can be converted into the other.

Mr. JOYCE. Yes.

Senator FLANDERS. Either way, then, with the conversion factor.

Mr. JOYCE. The reason I ask is because I believe the Department of Agriculture has itself accumulated certain statistics showing the number of bushels of grain which has been used month by month.

Senator FLANDERS. We will have that later, then.

Are there any other questions?

Senator COOPER. I would like to ask one question, Mr. Chairman.

It is true, is it not, that in recent years there has been a tendency for certain large companies to purchase small distilling companies?

Do you think, if the present formula is followed, which you say is very detrimental to a certain part of the industry, that would accelerate that process, the concentration into large industry?

Mr. JOYCE. It would be one of the things that would tend to do that; yes, sir.

Representative HERTER. One question.

Senator FLANDERS. Congressman Herter.

Representative HERTER. Do you know what the industry has done since the restrictions went off on the 1st of February? Is the industry buying corn in large quantities at the present time?

Mr. JOYCE. I do not think it is, although I am not informed accurately enough on that to answer your question.

Representative HERTER. I was asking the question because we just had word the price of corn dropped 8 cents today after having dropped the limit yesterday.

Mr. JOYCE. I believe Mr. Brannan referred this morning to the fact that the use of grain on the 2d of February was at the rate of 5,800,000 bushels a month. I think you will find the use of grain during February, when measured after a week, or 5 or 6 days, would be at a much reduced rate from 5,800,000.

They have taken just 1 day's use of grain and projected it for a month, and it might be interesting, if the committee thinks that is significant, to get from the Alcohol Tax Unit accurate figures on the use of grain during the week following that.

Representative HERTER. From a practical point of view, that grain must have been bought some time before in order to get delivery made, to have it on hand to process it on the 2d of February?

Mr. JOYCE. Undoubtedly it was. The industry knew it was going to be in a position to distill on the 1st of February and made its plans, ordered what grain was necessary, and undoubtedly had in shipment a couple of weeks before.

Some small quantity of grain was on hand in storage in the distilleries, but storage facilities at the distillers are very limited.

Senator FLANDERS. Any further questions?

If not, you are excused, sir, and thank you.

Mr. JOYCE. Thank you, sir.

Senator FLANDERS. The next witness on the list is Dr. Shipman of Brown-Forman Co.

Do you have a prepared statement?

Mr. SHIPMAN. Yes, sir.

Senator FLANDERS. It is short, and I think you may read it.

STATEMENT OF FRANK M. SHIPMAN, DISTILLERS FEED RESEARCH COUNCIL, INC.

Mr. SHIPMAN. I am Frank M. Shipman, representing the Distillers Feed Research Council, Inc., which is a nonprofit organization, having as its members companies and individuals actively engaged in the distilling industry, feed and grain dealers, and feed mixers and individuals and institutions engaged in research on animal nutrition.

The activities of the Distillers Feed Research Council are devoted to research on distillers' feeds, their production, properties, and uses

in animal nutrition. Further is the study of all literature, the accumulation of the known facts regarding animal nutrition, and the role distillers' feeds may play in this nutrition, and, finally, the distribution of the information so secured to the council members and any nonmembers interested in feeds and the feeding of livestock. The council has just recently completed a technical survey of the available literature. Although this is in detail and gives reference to the original work, it is written in an understandable form.

I would like to give a brief summary of these findings. Some may be considered as self-evident but I believe them to be pertinent to the subject.

Straight grain feeding is wasteful. It has been pointed out by Morrison in his book *Feeds and Feeding*, which is considered a national authority, that the ratio of utilizable protein to carbohydrates and fats for animal feeding should be approximately 1 to 6. This is the requirement for healthy growth and is the most economical production of meat, eggs, and milk. This ratio may vary slightly depending upon animal weight and the particular animal. Our natural grains do not approach this protein-carbohydrate ratio. For instance, corn shows a ratio of 1 to 10.3, therefore, the animal feeding on corn alone would have to consume an excess of from 15 to 20 percent of carbohydrate in order to secure its requirements of protein. This excess carbohydrate for all practical purposes would be wasted.

A perpetual protein shortage exists. At no time in the recent history of our country has there been a sufficient supply of protein supplements to so balance the rations of our livestock population that they can be grown and finished in the most economical manner. In a report by the Department of Agriculture, it is estimated that there is a shortage of 5,556,000 tons for the 1947-48 feeding year.

Representative **HERTER**. I wonder if you would mind stopping at that point?

Is that not completely at variance with the testimony of Mr. Brannan this morning?

Mr. **SHIPMAN**. Yes. This is a report which is put out by the Bureau of Agricultural Economics. It was put out last summer, estimating from the then estimate of crop and livestock the total deficiency.

This represents a deficiency that would exist if our animals were fed a balanced ration.

Now, there is another report which has been put out sometime in the fall by the Feed Manufacturers Association which shows some 632,000 tons short, and that accounts for only feeding as we feed it today, not feeding balanced rations on the farm.

You get a lot of variations, depending upon how the figures are arrived at.

Senator **FLANDERS**. The statement was made by Mr. Brannan in his testimony that available proteins were down in price as compared with the natural grains.

What are the available proteins outside of natural grains?

Mr. **SHIPMAN**. The available grains: soybean meal, cottonseed meal, linseed meal; and meat scrap and tankage, fish scrap and fish meal. Those make up the majority of your so-called protein supplements.

Senator **FLANDERS**. Do you agree that they are comparatively low in price at the present time?

Mr. SHIPMAN. Not any lower in relationship to the price of grain than they normally are. Normally, the price of, let us say, distillers' grains, will run approximately the same price as corn.

I will not say on the present market after this 8-cent drop today. These figures I am thinking about are about 3 or 4 days old.

On the market that existed just a short time back, corn approximately \$95 a ton, and we were selling distillers' light grain between \$90 and \$95 a ton, and that is more or less the accepted figure that runs year in and year out.

The other grains would be a little bit higher.

Senator COOPER. Did you hear Dr. Brannan testify this morning there is an adequate supply of protein feed in the United States?

Mr. SHIPMAN. Yes.

Senator COOPER. You disagree with him?

Mr. SHIPMAN. Slightly.

Senator FLANDERS. You may continue.

Mr. SHIPMAN. Distillers' feeds are the fifth largest source of protein supplements containing more than 20 percent protein. Although it may be considered small in total volume, it is surpassed in volume only by soybean meal, cottonseed meal, gluten feed and meal, and tankage and meat scraps. The distillers' feeds makes an important contribution in helping to alleviate this perpetual shortage.

Distillers' process grains are fed in two ways: dry and wet. Eighty percent are fed dry as a part of mixed feeds. Being transportable they make a welcome and sizable contribution to those sections of the country where livestock and its products are in great demand but food is in low supply. Fifteen percent is fed wet at or near distillery locations. This makes a total of 95 percent which are recovered and fed. It is our belief that this recovery is practically 100 percent as the figures mentioned above are taken from a written reporting form and some companies failed to put down accurately their recovery figures, particularly that fed in the wet form.

I would like to say there, that these are based upon the theoretical recovery; that is, 80 percent of the total theoretical recovery of all the grains that go into the distilleries, and not 80 percent of that which we do recover.

Within the last year, a survey has been run in which questionnaires were sent to the departments of animal husbandry at the leading universities, to feed mixers, and others that were considered to be in a position to answer the questions involved. The result of this survey was that in the opinion of these men, an average of 50 percent of the animal population was fed unbalanced rations. The primary deficiency in all localities was protein. The secondary deficiency, particularly in swine, were the members of the vitamin B group.

From the repeal of prohibition to the present, leaving out the war years, when there was no beverage production, the distillers have processed an average of 0.78 percent of the total United States grain supply. Yet from this quantity, which is less than the normal farm wastage and certainly less than that destroyed by rodents, the distilling industry now produces more than 2 percent of the total feed supplements. At present market prices, this important supplement is going back to the farmer and feeder at a figure below that of the natural grains.

During the distilling process, only starch and water are removed from the natural grains but during this distilling process, is added yeast, vitamins and minerals; all factors which are important in addition to protein, in the balancing of animal rations.

Senator FLANDERS. What are these vitamins and minerals, something added in addition to the yeast, or are they present in the yeast?

Mr. SHIPMAN. The minerals are added in the form of hard water; in other words, a limestone water which is high in calcium, magnesium, and phosphate particularly. The vitamins are developed during the life cycle of yeast.

Senator WATKINS. Are they assimilable by the animals?

Mr. SHIPMAN. Yes; and required by the animals, particularly poultry and swine.

Senator FLANDERS. And the calcium is also assimilable, is it?

Mr. SHIPMAN. Yes.

Senator FLANDERS. You may proceed.

Mr. SHIPMAN. Seventeen pounds of distillers' feeds, at a low moisture content are recovered from every 56 pounds of grain processed by the distillers. But, of these recovered grains, 100 pounds of the distillers' feeds is equivalent to 300 pounds of corn. This comparison is one arrived at by experiments which have compared soybean meal, linseed meal, and other protein supplements with raw corn and then the comparison of distillers' light grains with these other supplements. In two feeding demonstrations which have been carried on where distillers' grains are compared to corn, the results have shown that 100 pounds of distillers' feeds are equivalent to 370 pounds of corn.

Senator FLANDERS. You are again speaking of the things in which corn is deficient? You are not referring to calories?

Mr. SHIPMAN. No; not to calories. I am talking here purely to replaceable diet.

If you put one animal on corn alone, and take another animal of equivalent weight, you can cut off 370 pounds of corn to that second animal to every 100 pounds of distillers' light grain you put into his ration.

Not only has it required this lesser quantity of grain to grow and finish an animal, but also, the over-all feeding time in conditioning for marketing has been decreased and the value of the carcass has been greatly improved.

Representative HERTER. Mr. Chairman?

Senator FLANDERS. Representative Herter.

Representative HERTER. If you follow that recipe through, you would not claim it would be worth while to convert the corn into the feed without any byproducts such as alcohol and still make an advantageous feed out of it?

Senator FLANDERS. You caught me in the middle of a mental calculation in which I got lost.

Mr. SHIPMAN. I meant to carry that a little bit further. I would not refer only to corn but also other protein.

In some experiments carried on with swine, it has been proven that 1 pound of a good supplement will replace 13 pounds of corn and still maintain the animal in a good condition.

Senator FLANDERS. Let us get back to this simple arithmetic. You do not mean if you feed that sow over a period of months with that

amount of distillers' feed and did not give it any corn, it would have the same result as if you fed all corn?

Mr. SHIPMAN. No. That is one point I want to be very clear on, and that is that distillers' feeds are supplements only, just as soybean meal or any other supplemental feed. It is strictly a supplement to be added to the normal farm raw grain to balance the protein-carbohydrate ratio from this 1 to 10 down to 1 to 6, which is the requirement of the average farm animal.

Senator FLANDERS. That is not clearly shown in the way the paragraph is worded here, and we are glad to get that into the record.

Mr. SHIPMAN. It is strictly a supplemental feed balancing the ration of the animal.

Senator WATKINS. Then you do not mean what you say: "The results have shown that 100 pounds of distillers' feeds are equivalent to 370 pounds of corn"?

Mr. SHIPMAN. Oh, yes. You can take 370 pounds of corn out of an animal's diet and add 100 pounds of distillers' feed, still feeding the remainder of that animal's rations in raw grain, such as corn, oats, barley, or any of the others.

Senator FLANDERS. I think we want to know how much corn you are taking that 370 pounds of corn out of.

Senator WATKINS. That is right.

Mr. SHIPMAN. In that case, let us assume back on our original ratio here, in the original paragraph, where I said that the nutritive ratio in a balanced feed would be approximately 1 to 6; that the normal corn had nutritive ratio of 1 to 10.3; that you would feed approximately 20 percent more carbohydrates to that animal than would be necessary in order for the animal to balance up its protein deficiency.

So, actually, that is approximately on the ratio of 20 percent.

For instance, in the feeding of beef cattle, we normally feed 20 percent of distillers' grain to 80 percent of raw farm grain. That is the accepted practice in the feeding industry.

Senator WATKINS. You think it would be better to do that than to feed straight grain?

Mr. SHIPMAN. You would have a saving per steer of approximately \$20, going from 750 pounds to a thousand, and feed a lot less grain.

Senator WATKINS. And still get the same results?

Mr. SHIPMAN. And get the same results.

Senator FLANDERS. What you are saying, I judge, is that instead of processing all this grain through the beef creature or the hog, you process part of it through the distilling process and get a potable liquid from that process which the cow or the hog has no use for. Is that what you are saying?

Mr. SHIPMAN. Unfortunately, the hog or steer has not the necessary facilities for carrying on the distillation.

Senator FLANDERS. I think the arithmetic is getting a little clearer than it was, sir. I think you may proceed.

Mr. SHIPMAN. The distillers recover what might be termed "specialized feeds." Normal production is divided into three classifications: Distillers' light grains, distillers' solubles, and distillers' dark grains. Distillers' light grains are produced by screening the spent stillage and drying the coarser particles. Distillers' solubles are produced by evaporating and drying the thin stillage that has been strained in the first operation. Distillers' dark grains are in reality

a combination of the other two and are sometimes classed as distillers' grains with solubles. Each type has its specific place in the rations of individual classes of animals.

Long-time records, from dairy-production performances, makes distillers' light grains the favorite in official test rations. In the testing for the comparison of milk production by feed supplements, distillers' light grains are generally used as the standard for this comparison.

I would like to add at that point: In a recent experiment which was conducted and has not been printed as yet, feeding dairy animals supplemented feed with recognized supplements, and changing them on 30-day intervals over to distillers' mixed feeds, in the time on distillers' feeds they showed an increase in milk production of 4 percent.

Senator FLANDERS. A little change in that might perhaps produce an acceptable milk punch.

Mr. SHIPMAN. I do not know whether we could work that out. That is one thing we have not gotten to.

Senator FLANDERS. You are making these distillers' grains so attractive, I wonder why we bother with the whisky at all. It sounds as if this were your principal contribution to the economy and the feeding of the country.

But go on, sir.

Mr. SHIPMAN. Distillers' solubles, containing vitamins, minerals, and easily digestible proteins replace the more expensive supplements which can compare with these ingredients. Since these important ingredients are required for poultry and swine feeding, this type of feed is a very important one to our economy and its loss is heavily felt in the poultry- and swine-producing areas. Some of the results secured with this feed are phenomenal, particularly with swine. In growth and gestation rations, distillers' solubles improved breeding efficiency, fertility, and strength of pigs—increased the size of litter and shortened the time of feeding prior to marketing. They are valuable in calf feeding, particularly during the weaning period.

Senator WATKINS. Do you have any reports of investigations that have been conducted substantiating what you have said there?

Mr. SHIPMAN. I have here, and I have given the clerk a copy of it.

Senator WATKINS. Is this the document?

Mr. SHIPMAN. Yes.

Senator WATKINS. Just for the record, who made these experiments and tests?

Mr. SHIPMAN. On the swine, the work I was referring to there, was carried on by Dr. Krider, of Illinois. You will find here numerous references to the work which I have just summed up in a very few short sentences.

Senator WATKINS. Has anything ever been done by the agricultural colleges?

Mr. SHIPMAN. All of it by the departments of animal husbandry of agricultural colleges around the United States, and reported in literature.

For instance, speaking of our supplement at Purdue, and this is page 14:

At Purdue, corn plus supplement produced nearly twice as fast gains as when corn alone was fed to growing, fattening pigs. The average daily gains for corn was .95 pound, and corn plus supplement 1.77 pounds. The number of days to

reach market was reduced from 127 to 68 by supplementing the corn, and 31 percent less feed was required per 100 pounds of gain.

That is a direct quotation out of that report.

Senator FLANDERS. You may proceed.

Mr. SHIPMAN. Necessary vitamins and growth factors are developed during distilling process. Many of the almost remarkable results secured with the use of distillers grains can be traced, not only to the digestibility of their protein, which is the highest of any of our so-called protein supplements, but also to the presence of the vitamins and the growth factors. These growth factors have been shown to be necessary although their individual identity has not been determined.

In summing up this general picturization of the distillers feeds, and their contribution to the national feed and food economy.

Straight grain feeding is wasteful.

There is a perpetual protein shortage for the feeding of balanced rations.

Distillers feeds are the fifth largest protein supplements, containing over 20 percent protein.

At least 95 percent of all of the potential feed recovery from the American distillers is recovered and fed.

Approximately 50 percent of all of the animals in the United States are incorrectly fed on unbalanced rations; this alone costing millions of dollars in feed value and millions of pounds in meat, butter and eggs.

The beverage distillers in the United States process on an average 0.78 percent of the grain supply of the country and yet furnish under the present recovery system, well over 2 percent of the total feed supplements.

Only starch of the nutrients is removed during the distilling process.

Valuable distillers feeds are recovered from the distilling process.

These are specialized feeds; some being desirable for cattle and horses; others being desirable for poultry and swine. These feeds have been proven by actual feeding and their value is no longer a question mark for everyone that investigates the results secured from the departments of animal husbandry of the leading universities and the feed lots.

Being priced approximately the same as the raw grains from which they are produced, they economically replace the more expensive supplements.

The distilling process produces valuable vitamins and growth factors, and all in all, the distillers feeds, both by supply and properties are important adjuncts to our national feed and food economy. Their loss to the feeding trade only means that more animals must be fed unbalanced rations, which means less meat, poultry, and milk—and at a higher price. The importance of the distillers feed may be summed up in saying that it is the only high protein supplement on the American market containing highly digestible protein, vitamins, yeast, and yeast extracts and minerals, all of which are so essential to the growing and finishing of livestock in as economical a manner as possible so that more meat and produce can be given to our people at the lowest possible cost.

Senator FLANDERS. Have you any questions, Senator Sparkman?

Senator SPARKMAN. None.

Senator FLANDERS. Congressman Hart?

Representative HART. Just one.

You interpret Dr. Brannan's testimony this morning, then, in view of your contradiction of it, of the over-all picture, as meaning there were sufficient proteins to feed the number of animals now being properly fed without taking into account the 50 percent not being properly fed?

Mr. SHIPMAN. Yes, I would interpret his remarks to be made in consideration of two things, possibly, right at the present time, and that is a greater tendency on the part of the farmers and feeders to probably cut down a little on their supplement feeding because of costs which would increase that number from 50 percent to a higher figure.

Representative HART. Even with this distillers feed, there would still be 50 percent of the animals improperly fed?

Mr. SHIPMAN. With distillers feed, we would still show a very high percentage of animals being improperly and uneconomically fed.

Representative HART. That is all, Senator. Thank you.

Senator FLANDERS. Senator Watkins?

Senator WATKINS. No questions.

Senator FLANDERS. Senator Cooper?

Senator COOPER. I do not want to repeat what you said, but I gather this is what you mean in terms of the amount of corn that is used: assuming 60,000,000 bushels of corn are used by the distilling industry, you say approximately one-third, or 20,000,000 bushels, would cover distillers feed. Is that correct?

Mr. SHIPMAN. That is right.

Senator COOPER. If that 20,000,000 bushels of feed is added to the remaining amount of corn, you reach the same result as if you had fed the original 60,000,000 bushels of corn?

Mr. SHIPMAN. Yes, sir; that is correct.

Senator COOPER. How do you reconcile this statement of Dr. Brannan's on page 9 of his testimony:

We are told, for instance, that the resulting feed residue from distilling has an animal-feed value ranging from 45 to more than 100 percent of the original product.

You stated approximately 100 percent.

The fact is that less than one-third of the original feed value remains in the residue.

Do you interpret that to mean he is speaking of all the components—carbohydrates and proteins?

Mr. SHIPMAN. There, I assume he was referring to actual calorific value in that food itself, and no feed or food can be judged purely on its calorific value. Starch is the principal food having the calorific value for both animals and human beings.

Senator COOPER. I also call attention to the next sentence, which seems to be in contradiction to a statement he made this morning:

We agree, however, that the distilling residue is a welcome source of high-protein feed especially when high-protein feeds are in short supply.

I think he said this morning high-protein feeds were in adequate supply.

Senator FLANDERS. He indicated that the cost was lower in comparison to some normal grains.

Mr. SHIPMAN. Of course, throughout the entire world, there is a terrific shortage of protein which is much more serious than it is in our own country.

Senator FLANDERS. Have you any questions, Congressman Herter?

Representative HERTER. Only this: I assume from what you are saying now that you feel that the larger use of the grain by the distilling industry, the greater contribution that can actually be made to balanced feeding of animals?

Mr. SHIPMAN. That is correct.

Representative HERTER. And that there is no net loss in grain in point of view of feeding animals by putting grain through the distilling process?

Mr. SHIPMAN. That is correct; no over-all actual net loss in our feed and food economy from the distilling operations.

Senator FLANDERS. Any further questions?

If not, you are excused, and thank you very much, sir.

Mr. SHIPMAN. Thank you.

Senator FLANDERS. The next witness is Walter C. Berger, president of the American Feed Manufacturers Association.

Have you a prepared statement?

Mr. BERGER. No; I have not.

Senator FLANDERS. Do you wish to make an oral statement?

Mr. BERGER. I will be glad to start it off at least, and then I will be glad to attempt to answer your questions in any way I possibly can.

Senator FLANDERS. Proceed, please.

STATEMENT OF WALTER C. BERGER, PRESIDENT, AMERICAN FEED MANUFACTURERS ASSOCIATION

Mr. BERGER. My name is Walter C. Berger, president of the American Feed Manufacturers Association. I am also a director of the National Grain Trade Council, and was formerly director of the Feed Management Division in the War Food Administration from December 1943 to June 1946.

You brought up a question earlier in regard to usage of grain by the distilling industry by months in recent months.

Due to the fact that I thought this information might bring out some pertinent facts and would be of interest to the committee, I went to the trouble of getting these figures, and fortunately, you have asked for them.

I only have four copies here, but I will be glad to let you have one or two to use as a guide if you wish.

Before getting into the discussion, for the record, and for the committee's information, we, in the feed manufacturing industry, have no objection at all to seeing the distillers operate on a normal basis, and certainly do not want to see them put back under controls for the simple reason that we just simply do not like to see the return of any type of controls. We think the job is being done today without controls.

If we start back on these figures, I have prepared for you, you will notice that in July 1946, which was really at the end of OPA, you might say, it was on again and off again for a few months there. However,

the distilling industry was still operating and under controls during this period.

They used 2,324,000 bushels of grain in July; 2,091,000 in August; 2,325,000 in September; 3,051,000 in October; and 3,354,000 in November.

Then the controls were taken off for the first time.

We had an excellent corn crop in the Nation at that time. Price controls were off and corn was selling at approximately support prices at the time.

The distilling industry, according to the President's statement to Congress, had been operating for a number of years on a very restricted basis and had very low inventories. So, naturally, you would expect they would step into peak production if they possibly could.

In December, they used 8,133,000 bushels of grain.

In January, they carried on at 8,882,000; February 7,908,000.

Now, here in the last of February, in 1947, you will recall, is when we began to get the crisis propaganda from abroad and prices of grain began to skyrocket again. I assume the distilling industry had very good stocks or purchases of grain up to that point. At least, they ran through March at about the same level they had before. In March, they dropped down a little to 7,091,000 bushels.

Then in April, they had 6,417,000 bushels, and by May, when the corn market began to get really high, you can see they dropped to 4,850,000 bushels, and with corn scarce, dropped to 3,436,000 in June; 3,190,000 in July; 2,863,000 in August, a low.

In September, it was 4,359,000 bushels. I can readily understand why they sort of picked up in September.

About that time, we began to hear about the need of further grain conservation and some talk was already starting with regard to the possibilities of return to rationing, price control, and all of those factors.

Then the Citizens Food Committee was appointed, and it looked like the distilling industry was going to have to be put back under control of some kind, and I do not blame the boys very much for stepping up their production the first 25 days of October, which they did, to 8,012,000 bushels, because they felt they would likely be asked to, or put back under controls, and they had no idea for how long.

October through December 24, the 60-day holiday period, they only used 171,000 bushels, and December 25 to 30, 738,000 bushels, which made a total usage corresponding with the figure that was used in the President's message to Congress of 57,917,000 bushels for the year.

To me, these figures illustrate what really happens in the usage of grain in the distilling industry when you have a free movement of price and a free movement of operations.

After all is said and done, you want to remember that corn in December, January, and early February was down at approximately support-price level, and it was not until after that, as the market began to tighten up and they began to get their supplies built up in the warehouse stock, they automatically cut back. Nobody told them to.

They were not putting an awful lot of whisky away in bonding warehouses during the period of July and August when the prices were terrifically high and corn was short.

I think it is very good evidence of what happens when you start talking about controls, you disturb the normal movement of operation. This, I am very happy to submit to you for your consideration.

Senator FLANDER. It is already in the record.

Representative Hart, did you wish to ask any further questions?

Representative HART. No.

Senator FLANDERS. Senator Cooper?

Senator COOPER. No.

Senator FLANDERS. Congressman Herter?

Representative HERTER. One question.

You heard the testimony in regard to the value of distillers feeds in the mixed feed. I take it your organization is interested in that. Do you subscribe to the value of distillers feed?

Mr. BERGER. Yes; we do. We consider the byproducts of the distilleries as we are getting them today with complete recovery from practically all the plants is such that in the amount of grain used in distilling processes, we lose very little in the total production of meat, milk, and eggs in this country.

Representative HERTER. Did your organization make any agreement with Mr. Luckman at the time of the voluntary savings?

Mr. BERGER. No; we did not.

Representative HERTER. You did not?

Mr. BERGER. No, sir.

Representative HERTER. Have you noticed a falling off of your supplies to the poultry industry as the result of curtailing flocks?

Mr. BERGER. Definitely so.

Representative HERTER. Have you any estimate as to how much grain saved through that program may be coming out of what you are supplying?

Mr. BERGER. Well, I appeared before the Banking and Currency Committee a week ago, and presented to them some information along that line.

As I recall, the Luckman committee discontinued approximately Thanksgiving, and one of the great demands was on the poultry industry, and a voluntary program was agreed upon by the poultry industry and the Department of Agriculture with Mr. Luckman, in which they agreed to try to get poultry down to 410,000,000 birds by January 1.

I presume you have reference to that.

It so happened that when we discontinued poultryless Thursdays and we were able to go out and meet the farming public, the feeders themselves, with a good concerted program, in December, we had the heaviest culling of laying hens in the history of the country for the month of December.

It was over 7 percent of the laying birds moved out of the flock in December, where a year ago there was less than 3½ percent. Nearly twice what it was a year ago in the same month, and the average for a 5-year period was less than 5 percent.

So, we immediately began to see a very definite downward adjustment of the number of birds on farms.

All the early estimates were we could not get the number of laying birds reduced to below 440,000,000 by January 1, but 427,000,000 was the official figure on January 1.

That downward adjustment is continuing to take place during the month of January, very definitely.

In fact, the downward adjustment in livestock of all types, rate of feeding, is really where we are saving our grain.

Representative HERTER. Do you estimate that the 56,000,000 bushels Mr. Luckman estimated would be saved is going to be saved?

Mr. BERGER. You mean only on poultry or the entire program?

Representative HERTER. Only on poultry.

Mr. BERGER. It is being saved, but not because of poultryless or eggless Thursdays. It is being saved because of the free movement of price. Price is what is helping us get this job done.

Representative HERTER. You mean the dropping off in the egg price?

Mr. BERGER. And the increase in the price of grains up to the recent trend. It is just now we have begun to realize adjustment in livestock feeding and adjustment in livestock numbers is getting us into balance between our feed supply and livestock production.

Representative HERTER. You were in the War Food Administration for a considerable period of time?

Mr. BERGER. Yes.

Representative HERTER. Would it be your estimate if the prices of corn come down quite considerably, the farmer is going to be tempted to feed a lot more corn to his livestock and the savings estimated in voluntary programs are likely to disappear, and the same may happen in the poultry field?

Mr. BERGER. I would say these trends do not change that rapidly. You have them going so fast one way now you cannot correct them.

Let me use the illustration. You cannot do anything about the number of spring pigs you are going to have this spring. It is too late.

Senator FLANDERS. I take exception to that statement. We could kill the brood sows. We did it before. But nobody wants to now.

Mr. BERGER. I might say that the rate of slaughter is running at a high rate, anywhere from 50 to 100 percent faster than a year ago in the same month. We feel that the livestock adjustment in the feeding program is going too far and going beyond the point of helping the short feed supply.

In other words, we feel the livestock feeders today need encouragement rather than discouragement.

I would be glad to give you a summary of that if you would like to have it. It is a statement to the Secretary of Agriculture last week.

Representative HERTER. I think that would be valuable to have in the record at this point.

Senator FLANDERS. We will have it inserted in the record.

(The report referred to is as follows:)

REPORT TO THE SECRETARY OF AGRICULTURE BY THE INDIVIDUALS REPRESENTING
THE FEED MANUFACTURING INDUSTRY

The individuals representing the feed manufacturers reviewed the usage of wheat fed to livestock and poultry in this country in the first 6 months of the wheat crop year and felt that the figures quoted by Assistant Secretary of Agriculture, Charles F. Brannan this morning, is a record which indicates that the feed manufacturing industry has definitely restricted its use of wheat which

has resulted in conserving wheat for export purposes. It must be remembered that of the 69,000,000 bushels fed, possibly only 10 or 15 percent was used by feed manufacturing industry and practically all of this was of nonmilling quality, the balance of it being fed by the livestock and poultry feeders on the farm.

The feed manufacturing industry will continue the restrictive use of wheat in their livestock and poultry feeds as long as the emergency exists. It must be recognized that historically there are areas in which wheat has been used in livestock and poultry feed to a much greater extent than in others, and the manufacturers representing the heavier wheat-feeding areas indicated that even they have been using nonmilling quality wheat in their poultry and livestock feeds.

We do not feel that any voluntary agreement is needed to further save wheat.

The committee reviewed the January stocks of all grains in all positions and feel that the grain-conservation programs of the Department of Agriculture, as well as those which have been carried on by the industry itself and the livestock and poultry feeders of this Nation, have done considerable to stretch the grain supplies of the Nation. It should be noted that we have to date saved over 100,000,000 bushels of corn and 125,000,000 bushels of oats, that on barley and sorghum grains the changes are very small. However, we do have an additional 150,000,000 bushels of wheat more than we had January 1 a year ago. This study indicated that the conservation programs and free movement of prices that are now in effect are actually causing the livestock- and poultry-feeding rates to come in balance with our available feed supply.

The committee studied the adjustments in the livestock production and wish to review briefly some of the adjustments that are taking place.

Hog production uses the largest quantities of all livestock feeds. Hog men can make adjustments quite rapidly and do when prices indicate adjustments are necessary. On December 1 there were 6 percent fewer hogs 6 months old than were on hand a year ago. Official Government figures indicate that the farmers will breed 11 percent fewer sows to farrow this spring. During November and December hogs were marketed at from 5 to 16 pounds lighter. However, due to the income-tax situation, many hogs were carried over beyond January 1 to be marketed during this month. The present rate of shipment of the hogs to market proves that hogs are being liquidated at a very rapid pace. During the week of January 17, 317,875 head were marketed in the 7 primary markets in comparison with the week of January 18, 1947, of only 214,038, which means nearly a 50 percent increase in marketing, with approximately the same number of pigs last spring. The number of sows coming into market in the same 2 weeks was nearly 100 percent greater. The week of January 17 this year 20,162 in comparison to 11,349 the week of January 18, 1947. The committee feels that the adjustments in hog production is not only meeting the requirements of the shorter feed supply but is progressing at an alarming rate. Efforts should be made to reverse the downward trend rather than encouraging further adjustments in hog production.

A considerable savings in the amount of grain is being made, particularly corn, that is being used in beef production. It is the opinion of the committee that the beef cattle are coming to market this winter with 40 to 50 percent less corn fed to them normally. Cattle which normally would be fed 40 to 60 bushels of corn are now being marketed after having been fed only 20 to 30 bushels of corn. There are 15 to 20 percent fewer cattle in the finishing feed lots of the Corn Belt. It is estimated that this will save at least 100,000,000 bushels of grain during this crop year.

Dairymen are doing a good job of conserving feeds. In the past quarter, dairymen have been feeding approximately 3 percent less grain per cow than they did last year. The number of cows is being reduced. This means a saving of the equivalent of about 65,000,000 bushels of grain in the last quarter.

Poultrymen are making real adjustments. During December there was the heaviest culling of layers on record for that month—7 percent culled out this year. This 7 percent is about twice the amount culled out last year in the same month. The 5-year seasonal average is less than 5 percent for the month of December.

The number of eggs set in incubators is on a downward trend; on November 1, 24 percent less than the same date a year ago; December 1, 17 percent less; January 1, 12 percent less.

The committee representatives from the two largest turkey hatching egg producing States, California and Texas, report the numbers of turkey hens

blood tested for breeding purposes in these States is down at least 50 percent from a year ago. These reports verify the official Government turkey report as of January 1, which indicates that turkey production in the Nation will be cut back at least 18 percent from that of a year ago.

The committee feels that the conservation programs which are now in effect prove that:

1. Grain is being conserved.
2. Livestock and poultry numbers are being adjusted more rapidly than anticipated.
3. Present downward trends in livestock numbers can result in serious domestic shortages in meat, milk, and eggs.
4. The increased ratio of balanced rations to total grains fed has resulted in conserving millions of bushels of grains and that emphasis should be placed on further increasing the use of balanced rations to conserve our grain supplies.

The committee therefore firmly believes that instituting controls, either voluntary or otherwise, on the feed-manufacturing industry would hinder rather than aid the conservation of grain and the production of meat, milk, and eggs.

Name	Title	Representing	Business address
Harry B. Lee.....	General manager..	Ohio Farmers Grain & Supply Association.	Fosteria, Ohio, Post Office Box 391.
Arthur F. Hopkins.....	President.....	Charles M. Cox Co.	Boston 9, Mass.
Clyde H. Hendrix.....	do.....	Pillsbury Mills Feed Division	Clinton, Iowa.
H. M. Blackhurst.....	Assistant general manager.	Utah Poultry & Farmers Cooperative.	Salt Lake City, Utah.
R. F. Cunningham.....	Vice president.....	Grain & Feed Dealers Mutual Association.	Hibbs Bldg., Washington, D. C.
Stanley W. Tyler.....	do.....	Beacon Milling Co., Inc.....	Cayuga, N. Y.
E. Turner.....	do.....	The Grange Co.	Modesto, Calif.
I. F. Van Stone.....	do.....	Uncle Johnny Mills.	Houston, Tex.
Chris F. Miller.....	Sales manager.	Russell Miller Milling Co.....	Minneapolis, Minn.
J. D. Sykes.....	Vice president.	Ralston Purina Co.	St. Louis, Mo.
Walter C. Berger.....	President.....	American Feed Manufacturing Association.	Chicago, Ill.
Elwood Chase.....	Vice president.	Cooperative G. L. F. Mills.....	Buffalo, N. Y.
J. K. Ring.....	Ex-vice president.	Roanoke City Mills.....	Roanoke, Va.
Leroy K. Smith.....	Director.....	Grain Branch—PMA	Washington, D. C.
Grant G. Thompson.....	Chief.....	Feed and Feed Grains Division.	Do.
James W. Browning.....	Assistant chief.	do.....	Do.
M. L. Anderson.....	do.....	do.....	Do.

Senator FLANDERS. Any further questions?

If not sir, you are excused, and thank you.

Mr. BERGER. Thank you.

Senator FLANDERS. Our next witness is Mr. Ralph Heymsfeld, general counsel for the Schenley Distillers Corp.

Do you have a prepared statement?

Mr. HEYMSFELD. No, I have a brief oral statement.

Senator FLANDERS. I think it would be most valuable if you could express any differences of point of view from previous witnesses.

STATEMENT OF RALPH HEYMSFELD, GENERAL COUNSEL, SCHENLEY DISTILLERS CORP.

Mr. HEYMSFELD. Mr. Chairman, you have anticipated exactly what I have planned to do.

My name is Ralph Heymsfeld. I am general counsel to Schenley Distillers Corp.

Mr. Chairman, previous witnesses have covered a good deal of the matter which I had prepared to cover, and I will eliminate any reference to it except in one or two instances to underscore what has been said, and perhaps submit a little bit of additional proof in support of some of the statements that have been made.

I will also indicate, in one or two respects, differences between the position which Schenley thinks is the correct position and some of the positions which have been taken by other witnesses.

I should say, in explanation, that Schenley is not a member of the Distilled Spirits Institute.

Mr. Joyce, speaking for the institute, on a number of occasions referred to the industry, and in some instances we are willing to be part of the industry that he was describing. However, as I have said, in some respects we differ.

This application for legislation comes to the committee pursuant to section 6 (a) of Public Law 395.

As Mr. Joyce has so well stated, we do not believe that this message meets the requirements of section 6, and therefore fails to give to the committee a basis upon which sound legislation can be drafted.

Section 6 provides in subdivision (3), that whenever the President shall determine that there is or threatens to be a critical shortage of any raw material, commodity, or product, that he shall submit to this committee the proposed use, the proposed agreed curtailment of the raw material, commodity, or product by each processor and/or user.

Each processor or user, we think, clearly means the processors and users of that product. It cannot mean "any" and if that leaves any doubt, the following language would clear it up, I think, because it says:

including the specific formula proposed for such curtailment with respect to each class or classes of processors or users and the criteria used in the establishment of such formula.

That requirement, which I understand the chairman had some credit for, does more than state a sound legal principle. It states a sound economic principle, because it is impossible we feel, to determine the use or the curtailment of use of a commodity by the use of a single user.

There may be exceptions to that, but obviously if a user represents 90 percent of the use, or 60 percent of the use, a formula for curtailment of that user, together with a reasonable understanding as to what is to happen to the other users, whether by agreement or simply by a matter of common economic knowledge, may be said to effect some savings; but when you take a user of 1 percent of all the grains produced and distributed it in the United States and impose controls on that user and impose no controls on any other user, and do not impose any controls on export, as has been testified to, you simply do not have even the beginning basis for a procedure for allocation, because you cannot even arrive at the first answer to the first question, which is how much grain are you going to give to this one user. You cannot reach an answer, whether it is 2,500,000 bushels or 3,000,000 bushels, or 5,000,000 bushels, except by taking the total supply available of the commodity and setting forth what your program is to be with regard to that supply; who is to get what.

That is the first thing you have to do, and then when you go to each class of users—in this case we can treat the distillers as a class—you are then supposed to state the specific formula which is going to be used for the division.

Senator FLANDERS. Mr. Heymsfeld, you credited me with being responsible for this section in the bill. I am wondering whether perhaps, in my enthusiasm, I did not word it in impossible terms. I do not see

how it would be possible to do that. That requires 100-percent allocation of grain, and I would suppose, as you interpret that paragraph, it would require the allocation and expression of the formula or the amount to be allocated to each miller, for instance. Certainly, we have the allocation to every country except Canada, and it is a matter of interest that we do not have export allocation to Canada today, and it raises the question whether we should not have it.

It seems to me it is carrying it a little bit to an absurdity to suggest allocation as fine in the case of the multitude of millers as that which has been included or specified in the comparatively smaller number of distillers.

Mr. HEYMSFELD. Sir, I would suggest it is carrying to the opposite absurdity to say that when you propose a formula of allocation for 1 percent of the users, you have established in any respect a proposed degree of curtailment in current use of each such use by each processor, or that you can from the standpoint of economics, accomplish anything toward a solution of what the statute calls a critical shortage.

If the shortage is critical almost by definition it cannot turn on a 1-percent user; but assuming that it could, sir, you cannot deal with the over all problem except by dealing with a reasonable percentage of the users, and I think the statute so says, and I think properly so.

Senator FLANDERS. You may proceed with what you have in mind.

Mr. HEYMSFELD. Now, Mr. Brannan and the Secretary of Agriculture have endeavored on previous occasions when the same problem was raised to supply the deficiency by suggesting that there are in effect, or could be brought into effect, or might be brought into effect, certain voluntary programs, and Mr. Brannan testified this morning of certain progress which he felt was being made in those programs. Now, of course, to say that there are programs in development is in a sense meaningless, because until this committee, or until we, or until other interested parties know what those programs are, what the proposed degree of savings which those programs are intended to develop is, you again accomplish nothing. But as to the fact itself, that is as to whether there are voluntary programs pretty far advanced, as I think was suggested, I would like to refer briefly to a newspaper account which appeared in a newspaper of responsibility and which quotes informed official sources. We in the industry have been obliged to get a good deal of information from the press on these subjects.

The statement reads as follows, after referring to the President's request or the request which is before this committee:

Meanwhile, it was learned that the Department of Agriculture is a series of meetings Tuesday with grain-consuming industry received negative answers to suggested voluntary conservation and allocation measures from five of the industries, and that the Department is now preparing plans of its own which, if refused by the industry, will probably follow the distillers' plan for mandatory controls to Capitol Hill via the White House.

I think that is an answer to a question addressed to Mr. Brannan this morning.

Informed official sources said that the bakers replied, "No," no voluntary outlawing consignment selling.

I will not read it all, but this is said:

Meat packers would not discuss a suggested plan for allocating meat supplies. Wet corn millers were not interested in an agreement. The poultry industry was against reduction. The mixed-feed industry was against curtailing, and dis-

cussions with dry-corn millers and wheat-flour millers were inconclusive but will later be renewed. Last week the brewing industry failed to agree on a program.

That was the status, according to informed official sources, as of January 30, 1948.

Now, sir, I would like to refer to a letter which the Secretary of Agriculture sent to you and the letter is dated January 23, 1948, and in that letter, referring to this situation, this distiller situation, he said:

I have not submitted a recommendation to the President with regard to report to the Congress under section 6 (a) of the afore-mentioned act relating to a continuation of mandatory controls over distillers, because it was felt advisable to endeavor to submit a recommendation for an intergrated program for mandatory controls of all industrial uses of grain with respect to which a voluntary agreement or plan could not be developed.

I think it is perfectly apparent from Mr. Anderson's letter and this report and from the statute itself that there is a kind of bits-and-pieces process which is being followed here and, in the process, we are the first to be led down the plank.

Now, on the very question of whether it is possible to secure any result by voluntary agreement, we have the statement of the President of the United States, when he submitted his anti-inflation program on November 17, 1947, and he said:

The second part of the program to curb inflation is to secure the most efficient use of scarce goods and otherwise channel their flow so as to relieve inflationary pressures. Grain, for example, is too badly needed to permit excessive feeding to livestock—

which everybody agrees is a major problem.

Secretary Anderson said on November 26 before the House Banking and Currency Committee:

It is therefore apparent that the opportunity for the greatest savings of grain is on the farm.

Now, when the Senate passed Joint Resolution 167, which included this section 4 (b), it provided no authority to the President to allocate grain in any degree except in the case of the distillery use, and the President said about that measure that the legislation which he was given was "of minor importance" compared to what he had asked for, and he said:

This bill failed to include the key measures which are essential to an effective anti-inflation program.

Specifically on this question of voluntary agreements which Mr. Brannan stated this morning were on their way, the President said:

The voluntary methods authorized by section 2 in the absence of reserve powers to back them up can therefore be expected to accomplish little.

Senator FLANDERS. Nevertheless, the administration is actively prosecuting the endeavor to reach voluntary agreements in other industries besides your own?

Mr. HEYMSFELD. Yes, sir; that is true, and with a degree of success which I have referred to. Relying, of course, on only such information as has been made public, that is what we are doing.

Now, I want to cover briefly one additional bit of evidence on this feed situation. That was the testimony of Mr. Worthing, who was treasurer of the Boston Grain Exchange, and the reason I referred to that is that he testified that 99 percent of the feed that is used in New England is scientifically formulated and consists to a large degree

or a large extent of byproduct ingredients that would not be fit for human consumption. He did testify specifically that he did not believe that the amount of grain the distillers use would have very much bearing on the supplies in New England.

He did say that substantial use is made in mixed dairy feeds in New England of the distillers' and brewers' grains, and he did say that both distillers and brewers are a very valuable part of the formation of good dairy feed.

I should like to add briefly to the testimony that has been given about the exporting program, because the President's message is based upon an increase in the amount of shipments of grain or wheat from 450,000,000 to 500,000,000 bushels. The President indicates, based upon information which he received from the Secretary of Agriculture, that that program, the 500,000,000 bushels, is in effect what creates the necessity for these conservation measures.

Now, on January 13, the Secretary of Agriculture testified that our export program was going forward in a planned total of 450,000,000 bushels of wheat, and he did not refer to 500,000,000; and Mr. Brannan who was here this morning testified on January 26 specifically that there was as of that time no indication and no formal request to raise the goal, nor were there any indications that we intend to raise the goal. Nevertheless, the President on January 29 said that careful studies of the situation have indicated that the United States should endeavor to export at least 500,000,000 bushels.

Now, on November 24, Mr. Anderson said to this committee:

If you sent 500,000,000 bushels of wheat, you would have a carry-over of 196,000,000 bushels.

That was his testimony on November 24. In other words, he testified on that date that even if the export went to 500,000,000 as against the 450,000,000, there would be a carry-over of 46,000,000 bushels in excess of the statutory requirements.

Representative HERTER. Was not that based on the amount of feed on the farm of 200,000,000 bushels?

Mr. HEYMSFELD. He did say on another occasion that if it were possible to save feed used on the farm, that the 450,000,000 quota might be raised to 500,000,000. Now, the indications are that that quota can be met and that there have been feed savings on the farm. I can claim no official status for this information except that some of the figures are based upon information which the Department of Agriculture has made public, but there were left 795,000,000 bushels of wheat on the first of January. Up to that date we had exported 260,000,000 bushels toward whatever it was that we were ultimately going to export for the year. That left 190,000,000 bushels if our program was to be 450,000,000 and left 240,000,000 if our program was to be 500,000,000.

Now, last year's use from January 1 to 30 was 325,000,000 bushels. If we assume the same rate of use this year, we would have left 470,000,000 bushels. Deducting the carry-over of 150,000,000 bushels, that would leave 320,000,000 bushels or a possible surplus of 80,000,000 bushels to meet the 500,000,000-bushel requirement, plus the carry-over of 150,000,000 bushels.

Now, as I say, I cannot claim any basis for these figures. They are an analysis made by competent grain statisticians on the figures that were available, but indications as of the last few days and few weeks

are that the entire world situation in grain is a great deal better than it was last September when we joined other industries in a common effort to conserve grain.

The Secretary of Agriculture testified on the 13th of January, 1948:

Our corn picture is not extremely tight domestically. Our wheat position is very good. Our figure next year contemplates only the export of 300,000,000 bushels of wheat from all sources as against 450,000,000 or perhaps 500,000,000 bushels this year.

He said:

If we subtracted from our total output and we took off the 300,000,000 bushels, there is no possibility under heaven that the United States could use 1,000,000,000 bushels of wheat.

Now, on January 14 there was a statement in an authoritative publication, Corn Trade News, to the effect that during the last few months the world statistical position of grain was changed for the better, and the United States high prices have checked wheat feeding to animals and a theoretical 100,000,000 bushels of wheat has been added to the export surplus.

Mr. Worthing, to whom I referred before, said that the—

law of supply and demand will make itself effectively felt in over-all feed prices within the next few months, particularly with the improvement in world crop conditions during the past several weeks.

This morning's newspaper would seem to indicate that Mr. Worthing had some good foresight.

Now, on February 2, 1948, in the New York Times it was reported from Chicago, that was the day after that February 1 which followed January 31 when the control went off—the New York Times reported that—

general liquidation developed in the grain markets—

and—

the refusal of the House Banking Committee to take action in extending Government control of the use of corn by distilling interests after yesterday had relatively little effect on the market and failed to check the selling by large holders of futures.

Again, the newspapers from that date to this indicate a continuation of that situation.

Now, we have had a private study made of the world food situation based on published sources, including Department of Agriculture figures and other data, and the man who studied this situation came to the conclusion that the available supply of exportable grain for the crop years 1947-48 has been increased by more than 200,000,000 bushels over the estimates which the FAO made for the fifth meeting of the council, which was published last October and which was the basis of the activity of the Luckman committee.

I mention that to the committee because it may indicate a possible field for further inquiry. Again, I can claim no official basis for those figures.

Senator FLANDERS. Substantially up to now, sir, you have been saying two things, as I see it. One is, on your interpretation of 6 (a) the President should not come to the Congress with anything except a full program, voluntary or statutory, for all users. That is your first point, is that right?

Mr. HEYMSFELD. Well, sir, not quite in that form. I cannot suggest that the President should not come to the Congress under any conditions that he sees fit to come to the Congress. What I am saying is that this purports to be an application under 6 (a), and it purports to be a program for the allocation of grain, and I do not believe that the program suggested comes up to the problem presented.

Senator FLANDERS. Are you saying, however, that in this question of the allocation of grain, that he should come with a full program either voluntary or statutory for all users? If he is to come under 6 (a), is that what you are saying?

Mr. HEYMSFELD. Yes. I am not prepared to insist, nor do I think it is necessary to insist that that cover 100 percent of the use. In fact, if he had covered 99 percent of the use and left the distillers out, I think I could make a good case for it. We are such a small user and return to the feed economy what has been testified to here.

Senator FLANDERS. Well, the point you are making, I can assure you, will be taken into consideration by the committee.

Now, the second point that you are making is that as compared with the situation in which this program of grain savings was based, there is now no scarcity such as was envisioned at the time. That is your second point; is that right?

Mr. HEYMSFELD. It would take a hardy soul to come here and suggest that there was no scarcity of any commodity which the people of the United States and people around the world want to buy. The matter of scarcity itself is a relative conception, and it depends upon the price the people are willing to pay, and so on. For example, the Rumanians announced, according to this morning's paper, that they are willing to sell 40,000,000 bushels of corn, provided they get paid in dollars. Now, to a man who has not got dollars, that is a greater degree of scarcity than a man who has the dollars. However, I do suggest that it is open to some further inquiry as to whether, first, the program cannot be carried to 500,000,000 bushels without any further conservation measures, and secondly, whether the world food situation is such that it is necessary after we have made a contribution and others, to carry the program to 450,000,000, to dislocate this industry in order to carry that program to 500,000,000.

Senator FLANDERS. Now, have you still further points that you wish to bring up?

Mr. HEYMSFELD. I have one final point, and it has to do with this statement about the industry being overstocked, and as was said by a Department of Agriculture attorney, this restriction on the industry is a "blessing in disguise." So far as we are concerned, we do not favor any allocations. We believe in free enterprise, and we feel that believing in that system we have got to take our risks on it. We are not asking for the comforts of having a controlled amount of production. I believe that the position of our company is such that it would be perfectly evident to you, sir, that we would stand to benefit over a long period of time in such a system of control.

We do not believe in it, and we do not favor it. We believe that this industry should continue to be competitive, and it can be competitive only if production is left reasonably free. It is so well recognized that the very beginning of all efforts to monopolize is to control production that it is in a sense shocking to discover that that phase of the situation has received very little attention.

As has been stated here this morning in answer to a question Senator Cooper asked, the tendency to concentration in this industry and to the absorption of smaller concerns will be intensified by any such procedure. Now, this 6-year analysis appears to suggest to the industry that the Secretary of Agriculture knows a good deal more about the industry than the people in it do, because the people in the industry do not feel they have got enough whisky unless we want to assume that they are bad people who want to use up grain and make whisky and on which they have got to pay substantial taxes, simply because they have some motive of destroying a program which is in the public interest.

These people who want to make this whisky are people who believe that they need it, and if we want proof of that, all we have got to do is look at the prices of whisky since these controls went on. Now, again, I refer to a newspaper account reporting from Louisville, Ky.; the date is January 30, 1948:

January 1945's, now 3-year-olds, are reported in a few scattered places sold \$6 to \$6.50 a gallon. Newly made whisky would probably figure \$1.65 or better—and so on. I will not read all of these prices. The article says:

The market is up very considerably all along the line, also it is destined to go higher if controls continue.

Now, everybody in the industry knows that. It seems to me that price is a pretty good indication as to whether there is a shortage or surplus of anything. If this industry truly had so much whisky that it was a blessing to shut it down and control its production, I think it is reasonable to assume that these prices would not have reached these levels.

Senator FLANDERS. How do you account for the fact, if it is true, the statement we had this morning that for the last 6 months of 1947 there has been a 20-percent decline in sales?

Mr. HEYMSFELD. Well, sir, from what limited knowledge I have of the market, I would say that whether there was a decline or not depends considerably on whether there were excessive shipments in the early or the earlier part of that period. It will be recalled that we had gotten to the end of the war, that the controls on production, which incidentally during that period were stimulating sales, were as everybody knew only a question of time.

When we got to the fall of the year, with the prospect of the controls being gradually loosened and then would come off, it was perfectly evident that all of the people were storing extra supplies, whether it was a consumer who had three extra bottles in the cellar, or a bartender who had six extra bottles behind the bar, or a wholesaler who had tucked away large quantities of some scarce product, or other products that had crept into the market because of the shortage and were essentially undesirable and had to be pushed out and gotten rid of as fast as possible, thereby influencing the sale of the standard product which the industry customarily sells. There was that whole series of market factors which entered into the situation; but I do not believe it can be suggested that that would have resulted in a shortage of new production, because actually the facts are to the contrary. In January and February of last year there was substantial production in accordance with the normal procedures of the industry.

Senator FLANDERS. You do not feel that there is any danger from that 20-percent reduction that your customers are getting a little bit dubious about the benefits of drinking whisky?

Mr. HEYMSFELD. I had no indication of that sir, whatever.

Senator FLANDERS. Now, you have made your third point, or have you still something more?

Mr. HEYMSFELD. All I have that remains is to take one small exception, so that we are not bound by the record, shall I say. Mr. Joyce stated that we were present at a meeting on December 17 and at that time agreed to a certain program. I think you said the industry was present and agreed.

Mr. JOYCE. I said there was only one objection of the people who appeared.

Mr. HEYMSFELD. We had an observer at the meeting. What I want particularly to say is that we do not support the use formula that Mr. Joyce presented, although we do feel that it has certain equitable features which a capacity formula does not have. We are the people, among others, referred to in the President's message as suggesting a sales formula. Now, it has been stated many times that those who suggest that sales formula suggested it as the exclusive basis for distributing grain, and, of course, having made a statement of that kind, you have created a straw which can very easily be pushed over. Nobody would suggest that sales is a sole measure. Everybody recognizes that there are certain situations that have to be provided for, and in the telegram which we sent to the Secretary of Agriculture stating our position on that subject, we set forth that it was necessary in the application of the sales formula to take a certain percentage of the grain and make it available for particular cases.

Now, the administrative difficulties that are presented by that—Mr. Walton referred to them—are, we feel, no greater than the administrative difficulties which any system of allocation presents. There is no perfect system of allocation, and a man is always on better ground criticizing another system than having to write one of his own.

Our position is that this industry is best left alone, and that prices and competition will control production in this industry a lot more effectively than any activity of any Government group, no matter how much they may have of an opinion about this industry which is better than the opinions and knowledge of the people who are engaged in running it.

Senator FLANDERS. You would disagree with the purpose of allocation, which is to reduce the use of grain, artificially? You will disagree with that?

Mr. HEYMSFELD. As applied to the distilling industry, allocation can save no grain.

Senator FLANDERS. That is a mouthful.

Now, have any of the rest of the members any questions they wish to ask?

Representative HART. Is your company one of the companies to which Mr. Joyce referred that has large storage capacities of industrial alcohol and which might be unduly benefited?

Mr. HEYMSFELD. No, sir; our company is a company that does a substantial amount of sales, and it is interesting to note that whereas this whole program is set up and defended as a replacement program,

and, in other words, the industry is in effect being told that "We are permitting you to replace what you are selling," when you actually come to work out the formula, you do not do it that way. That is the thing we are contending for. Now, we say that sales is the only adequate measure of replacement. That is what you are replacing, and you are not replacing some past period of historical use; as a matter of fact, if you produced too little in that period, you might require more, as a reasonable businessman.

When the customer walks in and buys your product, he makes a vote, so to speak, and that is what happens in every-day economy.

Representative **HERTER**. Could I ask a question right at that point? How do you figure a sale? Suppose you bought your neutral spirits from somebody else. Who would have made the sale, you in the bottle goods at the end, or the fellow who supplied the alcohol to you?

Mr. **HEYMSFELD**. Congressman, for our purpose, we say that the man who makes the sale is the man who put it into the bottle, and that is particularly true in the last few years when people who were making the sales in the bottle were compelled because of shortages and allocations and things of that kind to go and buy from others some of the supplies which they would have provided for themselves had they had the use of their own facilities. That is exactly the point, sir.

Now, if we had a period of the use of plants to fall back on, and if our plant had been used for a 5-year period from 1942 to 1947, I happen to think that the results of the application of a use formula would be about the equivalent of the application of a sales formula. And in that case there would probably be no difference between what I understand to be the institute position and Schenley's.

We have this peculiarity in this case, that the only thing that has been restricted over a sufficiently long period of time to give you any assurance of your dealing with, shall I say, a normal situation, is sales. Production was restricted, and our basic objection to the institute formula is that it of necessity takes an artificial period, because the whole period is only 7 months. The Secretary took 4 of those 7 months, and he felt that those 4 were better than the 7 now proposed, but the 4 followed a long period of drought, and even in those 4 months there were still people that were able to produce only because of the preexisting drought and not because of any normal flow of business which they would have developed for themselves had there been 5 years of production and sale. That is the difficulty.

Now, as I have said, we cannot claim perfection for that formula, and you cannot claim perfection for any formula.

Senator **COOPER**. I would like to ask a question on the sale formula. As I understand, you manufacture some spirits and they you buy spirits.

Mr. **HEYMSFELD**. At the present time that is our business; yes, sir.

Senator **COOPER**. Now, on the use formula, if your present amount of bushels you use is reduced and your proportion of use you would produce this proportionate amount of spirits, and then if the person who sold you neutral spirits was reduced upon a formula of use, you would be able to buy a sufficient amount of the neutral spirits from that person to meet your quota under a formula of use.

Now, on a formula of sales, assume a person producing neutral spirits would take the volume of his sales and his quota would be reduced, and if he sold that to you, then it would be figured the second

time, would it not, upon a basis of sales? You would sell the amount that you produced, plus the amount that you buy.

Mr. HEYMSFELD. Well, sir, here is the point that I was trying to make.

Senator COOPER. Is not that true?

Mr. HEYMSFELD. It is not quite true.

Senator COOPER. Now, the sale would be figured upon the producer of neutral spirits.

Mr. HEYMSFELD. It is our sale. I ignore the first sale. It is an intercompany transfer, and it is an intraindustry transfer which I claim, and I should not say "I," but we claim should under existing conditions be disregarded because it is the very fact of the shortage which has created that sale initially. That sale would never have been made, would never have taken place, had it not been for the fact that this industry was under a program of allocation which was unfair to begin with.

In other words, if we had had a reasonable allocation of grain under the previously existing formulas, it might not have been necessary for us to buy those spirits.

Senator FLANDERS. Would that have been true of everyone in your industry? Do not some of them regularly depend on the purchase of neutral spirits?

Mr. HEYMSFELD. We have made an analysis of how the industry would divide up. First, if you take the 6,000-bushel-minimum people, and that everybody agrees to more or less, and then you take the companies, the number of plants that belong to companies, that are integrated companies according to the Secretary's definition, and it is a pretty good one—that is, companies that produce and sell and market their product—there are relatively few companies that are left, depending on whether you work around 7,500 bushels or work around 6,000 bushels, you get between 10 and 15 companies remaining to be accounted for, and those companies can be dealt with as hardship cases in the same way that the Secretary of Agriculture, under his own formula, has given allotments of grain to plants under hardship positions.

Senator FLANDERS. Are there any other questions to ask the witness?

If not, sir, you are excused, and we thank you.

Senator FLANDERS. The next witness on the list is Mr. A. P. Fenderson, assistant to the president, Publicker Industries, Inc.

**STATEMENT OF A. P. FENDERSON, ASSISTANT TO THE PRESIDENT,
PUBLICKER INDUSTRIES, INC., PHILADELPHIA, PA.**

Mr. FENDERSON. Mr. Chairman and members of the committee, our companies favor reasonable curtailment of distillers' grain use during the next several months of the continuing grain shortage.

Senator FLANDERS. May I make an inquiry at the moment?

Do you distill whisky or neutral spirits only?

Mr. FENDERSON. We distill both, Senator.

Senator FLANDERS. Both whisky and neutral spirits?

Mr. FENDERSON. Yes.

Senator FLANDERS. Can you give us a notion of the proportion of each?

Mr. FENDERSON. The proportion varies with market conditions.

Senator FLANDERS. You are prepared to do either; is that correct?

Mr. FENDERSON. That is right.

Senator FLANDERS. All right.

Just one other thing. Is there any difference whatever in the equipment for distilling whisky as compared to distilling neutral spirits?

Mr. FENDERSON. None in the basic equipment that is necessary, which is probably best proved by the fact that during the war every distiller in the country produced industrial alcohol—or practically every one.

However, an additional piece of equipment is necessary, which is very easily added to a distillery, and most distilleries have such extra equipment.

Senator FLANDERS. Just for my information, what is the equipment? A filter, or something of that sort?

Mr. FENDERSON. It is a rectification column, which raises the proof of the alcoholic content.

Senator FLANDERS. It is a second distillation?

Mr. FENDERSON. That is correct.

Now, our companies believe it is necessary both in the public interest and in our own enlightened self-interest that the use of grain in the distilling industry be curtailed by law for the duration of the current and continuing grain shortage.

We have two reasons for our position, the first is the public-interest reason—and we are interested in that. At the present time, according to the testimony of Assistant Secretary Brannan of the Department of Agriculture this morning, the distillers are currently using grain at the rate of 5,800,000 bushels per month.

The President of the United States addressed a request to all distillers in the United States, through a press release Saturday that they hold their use of grain to the January level until Congress had had an opportunity to decide once and for all what shall be done with the distilling industry.

Representative HERTER. Was that rate not based on 1 day? You said the present rate was based only on 1 day in February.

Mr. FENDERSON. That is correct; and I believe that the reports come from the Alcohol Tax Unit which is checking each day on the industry's rate of production.

On that point, some distillers are holding their production to the January rate, and some are exceeding that rate, and some probably are not operating at all. I think the whole industry is marking time until Congress acts on this matter.

However, already the industry is using more than twice as much grain—at the rate of the first day of February—it did in January.

I believe it was Mr. Berger who said that in times of shortage there is an inclination to use all that you can of scarce materials. Competition and business judgment force people to do that, unless they are restrained. We are already going at a rate of 5,800,000 bushels, and it is entirely likely, if Congress indicates that it does not believe there is any need for restriction in this industry, that the rate will jump as high as 10,000,000 bushels for at least the next several months.

That is the thing that concerns us from the standpoint of the public interest. We have heard the statements and we have seen the stories

that the grain outlook is looking up, and we are very glad to hear it, and we hope it is true.

However, the grain crops that are being talked about are not yet made, and we still have to live at least until July 1 on the grain that was made last year.

We are quite certain from our knowledge of the grain market and grain supplies that there is not enough grain to go around and satisfy everybody's maximum requirements between now and the time when these new crops will be available to us.

We think it would be very unfortunate, from the standpoint of the public interest, if this industry did go ahead and use 10,000,000 bushels of grain a month for the next several months.

Senator FLANDERS. That would be a use higher than the industry has ever attained.

Mr. FENDERSON. Not quite. During the war when the industry was being forced to full production by war requirements—

Senator FLANDERS. I am speaking of the whisky-distilling industry.

Mr. FENDERSON. Total grain alcohol production did rise to a rate of 15,000,000 bushels per month; but none of us would expect it to go that high again.

However, in October when the industry was called upon to curtail its production during the period in which it was negotiating the terms of that curtailment, it used grain at the rate of 10,000,000 bushels per month. We are again in a roughly similar position. There is talk of a grain scarcity and if Congress does not want this industry to reduce its production, I feel sure that our grain use will go to 10,000,000 bushels for some months. How many, I do not know, but that grain use would come at a time when the economy can least afford it.

Senator FLANDERS. Is not that an excessive use for any expected peacetime conditions, continued for 6 or 8 months?

You do not have the demands for industrial alcohol you had during the war.

Mr. FENDERSON. That is correct, and certainly that would be a temporary situation, but, unfortunately, it would come at the wrong time. The reason it would come now is because although none among us here disputes these optimistic reports about the coming grain crops—and we hope they are going to be as good as predicted—we all remember the story of Joseph in the Bible, and we hope but we fear, and we are going to produce all we can unless Congress tells us not to.

The second reason, and the selfish reason from an industry standpoint, is that we are in this industry, and we want to see it kept alive. We have a tremendous stake in this industry—which is one of the things that this distillers' difference of opinion is about—and we are convinced the entire industry will suffer if there is no limitation of grain usage in the industry over the coming several months of acute grain scarcity.

Not only will all the distillers suffer in public esteem, but they will eventually suffer where it will hurt most, in their profit-and-loss statements, if a relatively few among them persist in resisting, no matter how cleverly, the temporary restrictions on their production which are so clearly necessary in the national interest.

Already the industry, including the large and important—and innocent—wholesaling and retailing branches, has suffered a substantial

loss in public prestige due to the short-sighted activities of a few leading distillers, and their satellite companies.

Representative **HERTER**. What do you mean by that? Will you develop that a little?

Mr. FENDERSON. Unfortunately, the industry has been unable to reach any voluntary agreement on a program of reduced operations. Instead, it has chosen to fight this matter out in public, both the question as to whether there should be any curtailment at all, and secondly, how that curtailment should be divided up among the industry, with the result that the distilling industry has made itself appear to be a squabbling bunch of selfish men.

That has not helped us where we most need help, which is with the public of this country which holds our business fate in its hands.

Senator **COOPER**. Is it correct that when an attempt was being made to agree on voluntary allocations that the industry with the exception of your company, and perhaps Schenley's, agreed?

Mr. FENDERSON. No, sir, it is certainly not, and I am glad that you asked me that question. It is one of the things that we have been trying to track down, and answer in public. It has been told a great deal in private and we have not been able to keep up with it. It is very difficult to nail a lie when for every ten men telling it, only one man is trying to correct it.

The facts of the matter, Senator, are these—and I will be very happy if you will check them with the appropriate agencies concerned:

The President of the United States asked the distilling industry, on October 5, to suspend its distilling operations for a period of 60 days. A few days following that, I think it was on the following Wednesday, Mr. Luckman, as the President's representative, called a mass meeting of the entire industry and at that meeting he asked all of the members assembled—and I think it was a very good assemblage, 90 percent of the industry if they would stop distilling operations, and nothing else—sales would not be affected—on October 15.

Of the companies represented, 19, according to Mr. Luckman's count, voted in favor of shutting down on October 15. Our companies were among them. In addition to our companies, as I remember the vote—and I think this would be one fact for the committee to check—other companies which agreed were American and United and some 15 of the truly independent small distilleries in this business.

Now, the fact of the matter is that the other people we have heard here today refused to vote at all on that occasion, each one pleading that he had to consult his board of directors, or some other reason. The result was that there was another meeting later, and there was a long wrangle as to when the closure date should be. I think the date advanced by some people was November 15.

As a result of that, the date was changed to October 25, and in those extra 10 days, 10 days which we did not ask for and did not want, there was a production race in this industry, with the result that industry production rose to 8,200,000 bushels in October, in 25 days of October, which is a rate of 10,000,000 for the entire month.

Senator **COOPER**. That was not exactly my question.

As I understand, I was asking later, since that time, did you discuss it again?

Mr. FENDERSON. There have been so many meetings in an effort to get a voluntary agreement that I sometimes get confused.

There was a meeting on December 17. At that meeting Secretary Anderson in a last, final effort to reach a voluntary agreement in this industry after several preceding efforts—there had been almost continuous meetings of distillers coordinating committees and such—made a final proposal to compromise the difference between the various factions of the industry, by suggesting that the industry allocations be based on a part capacity and part historical method.

The first thing that he suggested was that the industry's production be reduced voluntarily to 2.5 million bushels a month, which in his judgment was generous. The rest of the industry almost unanimously asked for 3.5 million bushels. We supported the proposal that it be 2.5 million.

Secondly, the method of allocation proposed by Secretary Anderson would have given 50 percent weight to a plant's capacity to mash grain, and 50 percent weight to its actual usage of grain for beverage purposes in a base period selected by the Distilled Spirits Institute; that base period being the months of December, 1946, through March of 1947.

We did a great deal of soul searching in advance of that meeting—and we feel very strongly that the difference between the historical method and the capacity method of allocation in this industry are the differences between monopoly and free enterprise, to reduce it to its elements, and I would like to go into that in a little more detail later—but we finally decided that in the interest of industry harmony and to prevent any further loss of public prestige for this industry, we would compromise our principle 50 percent; and, frankly, we fully expected the rest of the industry would be equally generous.

However, they refused to budge an inch. They wanted a 100-percent capacity basis on their own system, and the result of that was that we virtually stood alone for a voluntary program at that moment.

Senator COOPER. Is it true that with the exception of Publicker Liquor and perhaps Schenley, the industry was joined upon the formula of use rather than use plus capacity?

Mr. FENDERSON. I would say this, Senator Cooper: I don't know the secret votes of the Distilled Spirits Institute, but their united front was in favor of two things: a monthly allocation of 3.5 million bushels under a voluntary system, and secondly, an allocation of that among industry members solely on the historical basis and solely on the historical period selected by them.

Senator COOPER. Under the system you do not lose anything at all under the formula advocated by Mr. Anderson.

Mr. FENDERSON. Senator Cooper, we lose a great deal.

Senator COOPER. As against the use formula.

Mr. FENDERSON. We think there is substantial merit in the capacity method of allocating grain in this particular industry.

Senator COOPER. You get more grain under the use-plus-capacity than you would under use.

Mr. FENDERSON. We get more grain under the proposal advanced by Secretary Anderson than under the proposal advanced by the Distilled Spirits Institute, yes.

However, since that question has been raised, Senator, I would like to go into it a little further.

Representative HERTER. Could I ask one question at that point?

In these discussions that took place, I notice that everywhere the figure of so much per month is talked about, and then there is the figure that was shown us. There is a large seasonal variation, and this proposed curtailment program is to go through to October 30, of this year.

Had there been any discussion of, say, 20 million bushels for a 6-month period, rather than 2.5 million per month?

Mr. FENDERSON. I have not heard of any such. However, as to the seasonal fluctuations in this business, the distilling season before the war was traditionally from about October to May.

Senator FLANDERS. What is that determined by? The price of grain?

Mr. FENDERSON. It was connected with two principal factors. First of all, the availability of corn, which is the industry's major raw material, and secondly, with the fact that in the Kentucky distilleries, especially, the temperature of the water in the summer months is too high for efficient distilling, and in the summer months they are usually shut down.

There is a third factor which is simply this: that the distilling industry always had a tremendous excess of capacity over its replacement needs, and the total requirements for the year could easily be produced in half of the year, and that was the most efficient way and cheapest way to produce.

Representative HERTER. What I am wondering about, if that was the usual practice, in the wintertime as against the summertime, an over-all 8 months' formula on 2.5 million a month would be considerably larger production, or rather, the other way around.

If a lump sum were taken to the whole 8 months as against a monthly allocation, more grain would probably be used; is that right?

Mr. FENDERSON. Well, I think all of those considerations would be overcome in the practical area by the fact that everyone would run as far as he could in this immediate period, when there is talk of a shortage of grain.

Each distiller is trying to get as much as he can. I think there would be a tendency to use the grain now rather than to follow any seasonal pattern.

Representative HERTER. Merely because they can get it now, and perhaps cannot get it later?

Mr. FENDERSON. That is about the size of it, and before that becomes a condemnation of businessmen, in this affair we are all guided by our profit-and-loss statement, and we cannot take any chances unless it is public policy for us to do otherwise.

Senator FLANDERS. You may proceed, sir.

Mr. FENDERSON. The loss of public prestige is a serious matter for any industry. It is a matter of life and death for the distilling industry. The distilling industry, alone among the great American industries, is dependent for its continued existence upon public acceptance and public opinion as expressed frequently at the ballot box.

For 13 years it was voted out of existence. In 1933, it was revived by popular vote. Every year since then the industry has run the gauntlet of local and State elections. Thirty-five percent of the electorate consistently vote against the industry every chance they get.

We live on the good will of 16 percent of the voters, a slim margin. If 16 percent of the public decides they do not like us, for any reason, we run the risk of being put out of business entirely.

By consistent good behavior and outstanding public service, such as the industry's 100-percent conversion to industrial-alcohol production during the war, the industry has been gaining ground steadily in popular esteem. Much of the gains of the last 15 years have, in our judgment, been lost in the last 4 months, because of the selfish maneuvering of part of the industry at a time when it should have been cooperative, in the public interest, and as a matter of industrial statemanship.

There is danger that the tide of public opinion may have already changed against the distilling industry. Many in the industry hoped that this year would see the great State of Kansas vote for legal alcoholic beverages in preference to the illegal product, and thus become the forty-sixth State to vote out prohibition.

Reports from Kansas now are that the distillers themselves, in this affair, have given the drys sufficient ammunition to enable them to hold the prohibition line a little longer.

We for one do not want to see any further strengthening of the dry forces. We think the legal distilling industry is the only alternative to prohibition, bootlegging, crime, and corruption. We think this industry is an important industry, important in terms of its service to the public, important to the many thousands of small storekeepers and jobbers who depend upon it for a living, and to the thousands of men and women who are employed in the bottling, distribution, and selling ends of the trade.

Fortunately, the employment involved in the actual distilling end is slight; and employment in the areas where substantial employment is involved is not affected by curtailment of current distilling operations.

It is unfortunate indeed that this particular industry, which is so dependent on public opinion, has not been able to agree to an effective voluntary program of production curtailment. Our companies have consistently urged that the industry collaborate in a voluntary program of reduced operations during the period of grain shortage, for the simple reason that this is the one industry that stands to gain and not lose by such a program of reduced grain use.

This is the one industry which can continue its normal bottling and sales for many, many months without any further use of grain, or with very limited use of grain.

It is a unique grain-consuming industry, in that it has such a substantial stock of its products—6 years' supply of aging whisky and at least 6 months' supply of blending spirits—that it can serve both the public interest and its own by curtailing its grain use temporarily. The industry's gain in public good will would in the long run far overbalance any other consideration.

Senator FLANDERS. I would like to go back a little in your statement, where you say it has such a substantial source of its products, 6 years' supply of aging whisky and at least 6 months' supply of blending spirits.

That 6 months' supply of blending spirits, according to testimony that we heard early this afternoon, is only available at unusually high prices, if I understood the testimony.

Mr. FENDERSON. Most of the blending spirits are distributed throughout the industry and all of the large companies have large shares of it. There is very little buying or selling now although there was considerable business in the field last October.

The facts as to the disposition and distribution of those neutral spirits should certainly be laid before this committee, because there has been a lot of misunderstanding and misrepresentation on that score. We stand ready to give this committee the figures as to our holdings if the other major companies involved will do the same.

We feel confident that the figures will show you that, although there is bound to be some disproportion in holdings among the various companies, they are pretty well distributed. I do not believe that any major company is going to run out of spirits in 3 months or any such period.

In any event, there are many alternatives open to the industry. Mr. Herter mentioned one this morning, which is the use of potato neutral spirits, and another one is the redistillation of substandard whisky of which every distiller has some.

This is a very resourceful industry. For 22 months during the war, it maintained sales on an adequate basis without any distillation whatsoever.

Senator FLANDERS. You may go on.

Mr. FENDERSON. Our companies have agreed to and accepted every reasonable proposal that has been advanced to curtail distillers' use of grain for beverage purposes.

In the last 4 months, along with two other medium-sized companies and practically all the small and truly independent distillers, we agreed to suspend grain operations for 60 days commencing October 15, last year, as we were publicly requested to do by the President and Mr. Luckman.

However, all the big companies, and the satellite medium-sized companies who follow their lead, held out for the right to produce until October 25, on which date substantially all of the distilling industry did suspend grain operations.

This was unfortunate for the industry, as a whole, because during the 10-day period from October 15 to October 25 these companies raced to produce as much as they could, forcing the rest of the industry to do likewise, with the result that the industry as a whole doubled its grain use in October.

We have even agreed to some very definitely unreasonable propositions in an effort to secure industry harmony and avoid controls by law. We are probably the strongest proponents in the industry of free and unrestricted competition, and to that end have constantly built up our capacity to produce and compete over the 34 years of our corporate existence. Naturally, we feel that we should be entitled to use our capacity on a pro rata basis during any period of voluntary or compulsory restrictions.

Nevertheless, in spite of our very strong convictions in this matter, we reluctantly accepted the proposal of the Secretary of Agriculture in the middle of December, to give capacity only one-half weight in the determination of company grain quotas, in the hope that if we came halfway in compromising our principles that the rest of the industry would also come halfway.

Unfortunately, again, some of the rest of the industry were unwilling to give an inch, with the result that we were controlled by law during the month of January. And during January, and under the proposal now advanced by the President, only one-third weight was given to capacity, which we believe is clearly unfair and inequitable to independent companies like ourselves and to small companies and newcomers.

We have thus conceded half of our position already, in practice, although we do not accept such a proposal as fair or proper in the public interest, and we have lost another 16 $\frac{2}{3}$ percent of our principle somewhere.

However, our opponents, our competitors, are not satisfied. They want more. They want all of our position and, I suspect, all of our production, and all of our sales, and our hides, too, if they can get them by congressional action, or any other way.

They are now saying that they will accept the necessity of some grain control but only on their 100 percent, iron-clad historical and discriminatory basis; which is saying that if you will solve their competitive problems by freezing the past, and by nailing our hide to the wall, then they will go along with the program of conserving grain for more essential uses.

As to why we oppose the historical method of allocating grain, our position on the relative merits of their proposed method of allocating a reduced supply of grain to this industry, on the basis of a past production period and, you may be sure, carefully selected period as compared to the capacity method of allocation, is that the capacity method is infinitely better from the standpoint of maintaining a vigorous, healthy, and freely competitive industry, which is certainly in the public interest.

The use of any past historical period as a guide to current grain allocations is a device to freeze competition in this industry at some past level, in the interest of the dominant factors in this business, who have already swallowed up 75 percent of the business. And no matter what past period is selected, it would favor some companies more than others, and would force competition into a pattern that is past and dead and gone.

The one vital factor in this industry today, or in any industry, is capacity; and it is capacity which, more than any other factor, dictates the competitive pattern. And it is proper for the economy as a whole that it does. The success of the American economy is due to the businessmen who had the vision, courage, and good judgment to expend constantly America's industrial plant, despite the opposition of the stand-patters who wanted to keep their competitive position without working for it.

The dominant companies in the distilling industry would be perfectly satisfied to have their past position and profits protected and perpetuated—by act of Congress. They would like to see the vigorous competitive factors in the business throttled and killed—by act of Congress. They would like to be able to rest after their labors and enjoy the fruit of their present dominant position forevermore—by act of Congress.

What we want is congressional assurance that the current and continuous competitive development of this industry will not be halted,

by act of Congress. We think that Congress should act to insure the conservation of grain in the distilling industry, in the public interest and in the distillers' interest, in such a way as to, at the same time, insure that full competition, based on plant capacity, will be vigorously maintained.

Senator FLANDERS. Thank you.

Are there any questions?

Representative HERTER. This morning we had testimony from Mr. Walton, in which he singled out your company for special mention as being the opponent of any voluntary revision or agreement in reaching a formula.

He also suggested in that that your company was a comparatively newcomer in this field, that your plant capacity had been tremendously increased during the war period for industrial purposes, but the industrial purposes having gone out of the picture, you had now shifted to the liquor industry.

He stated that presented an unfair competitive position in using that criterion from the point of view of allocations.

Mr. FENDERSON. Mr. Herter, I am glad that you have raised those two questions. I hope that I have answered the first one: we have gone a long way toward getting a voluntary program in this industry, but we failed. We were willing to go half of the way and our competitors were not. I don't know who is responsible for the failure of the voluntary program, but certainly we did more than they were willing to do.

Now, on the second point, there has been a great deal of misrepresentation about the Publicker company; and the one that you have just mentioned is one of the baldest.

The Publicker company is not a newcomer in this business. It entered the business in 1913 in Philadelphia, for the production of beverage spirits and industrial alcohol and in the years prior to prohibition we produced a great deal of what is now known as neutral spirits.

At the time of repeal, or immediately prior to that time in 1933, we made preparations to go into the beverage business in this country as soon as it should become legal. At the time we embarked on the new beverage business in 1933, the Canadian companies had not yet gotten any substantial foothold in this country. One of them had no plants whatsoever at that time, that was the Seagram Co., and Hiram Walker to the best of my knowledge was just getting started by the acquisition of an American plant.

In the years from 1933 until the war our companies were constantly an important factor in the distilling business. I would say that on our best judgment and belief we were among the first 10 companies in the distilling business almost throughout that entire period.

Now, the matter of our plant capacity: Our company has always believed in the desirability, from our own standpoint and from the national standpoint, of expanding its plant. The belief is almost religious. The company began expanding its plant the day it went in business, and it has expanded ever since.

However, there has been no expansion in our alcohol capacity since before the war. The capacity of our big plant at Philadelphia, which

is the bone of contention, was exactly the same before the war as it is today. What happened during the war was this:

Our plant is a plant for the production of alcohol from whatever raw materials may be available. Before the war we had available to us principally molasses for industrial purposes. We also had potatoes, but they were not then used. We have since learned to use potatoes, and we have used more potatoes for the production of alcohol than any other company in the United States.

Also available to our plant was grain, and ground grain could be and was used in that plant. However, during the war, in the interest of conserving transportation and other facilities, the War Production Board decided that it was in the best interests of the war program as a whole that our plant be equipped with facilities to grind its own grain.

Now, we had foreseen that, and in 1941, before Pearl Harbor, we began the installation of very substantial facilities for the grinding of our own grain at our own expense. We built and financed entirely 45,000 bushels of that grain-grinding capacity.

Later on, after Pearl Harbor, the Government requested us to install additional facilities, and at that time there was a general program for financing such facilities through the Defense Plant Corporation; and those facilities were installed by the Defense Plant Corporation as a part of its over-all program.

Representative HERTER. Just the grinding facilities?

Mr. FENDERSON. Yes; in 1942.

Representative HERTER. Were they the only part of your increased program?

Mr. FENDERSON. No, sir; you will remember that during the war we had the reverse of our present grain situation. We had adequate supplies of carbohydrate cereals and as a matter of fact, it appeared proper from the national standpoint to us as much grain as needed for industrial-alcohol production.

However, there was a shortage, a relative shortage, at that time, of protein-feed supplements which were then going down the drain in most of the distilleries, so the Department of Agriculture worked up a program to recover the protein-feed supplements in most of the major distilleries of the United States, and a plant for the recovery of such feed was later built in 1944 and 1945 along side our distillery.

The total investment in our facilities by the Government was in the neighborhood of \$15,000,000, and the total investment of the Defense Plant Corporation in all distilleries in the United States was about \$45,000,000. Our plants are about one-third of the capacity of the country. We got our pro-rata share and no more.

In addition to the Defense Plant Corporation financing, a number of other distilleries financed additions to their plant, and outright expansion of their capacity, which we did not, through certificates of necessity which turned out to be a much better business deal. They got their facilities at 20 cents on the dollar, and we finally had to negotiate for the purchase of ours from War Assets Administration at 35 cents on the dollar.

Representative HERTER. Your financing and your expansion during the war was limited to the grinding and the byproduct plant, entirely?

Mr. FENDERSON. That is correct.

Mr. Herter, since you mentioned Mr. Walton's testimony, there are a few other points there that I would like to discuss quickly, if I may.

Of course, he was misrepresenting our position with respect to the expansion of our capacity during the war. Secondly, he referred in passing to the statute under which our company sued the Secretary of Agriculture in 1945. That statute was section 203 (b) of the War Mobilization and Reconversion Act of 1944. It did not provide, as Mr. Walton suggested, for any favoritism to plants with large capacities. Rather, it provided that, during the war effort and afterward during the reconversion period, any war production facilities which were no longer necessary for war production, should be allocated scarce materials for the production of civilian articles without prejudice because of historical position of the industry at any given time.

Now, that was a clear mandate by Congress against the use of the historical base, and I understand it was very carefully considered by Congress, and decided and determined to be in the best interests of the economy in that it would stimulate free competition and free enterprise and tend to restrain monopolies, rather than to restrain competition.

Senator COOPER. What was the plant capacity at the beginning of the war?

Mr. FENDERSON. Well, Senator, it was exactly the same before the war as it is now. I can think of it in terms of grain, because that is the thing that comes to my mind immediately.

We have mashed as much as 173,000 bushels of grain at our big plant in 1 day.

Senator COOPER. Was it your capacity to mash that volume of grain at the beginning of the war?

Mr. FENDERSON. Yes; it was exactly the same, and I will tell you why, Senator.

It is perfectly possible in a plant like ours to mash grain if it is preground, and that became a very common practice during the war. Several of the other large plants, including the du Pont plant and New England Alcohol at Everett, Mass., and several others did follow the practice of having their grain ground for them.

The reason the facilities were installed in our plant was to make it more flexible in the interest of conserving transportation and conserving grinding facilities at other plants.

Senator COOPER. Before the war you engaged in the production of neutral spirits and spirits for industrial purposes?

Mr. FENDERSON. That is correct. Our plants have been consistently used for both purposes.

Senator COOPER. Can you give any figures as to that, showing the proportion that you engaged in the production of whisky, neutral spirits, and industrial alcohol?

Mr. FENDERSON. I do not have them with me. I can get you those figures, and I hope that it is a general request, because that is a competitive matter that I would like to know about other distilleries.

Senator COOPER. Can you give us some proportion?

Mr. FENDERSON. If this is a general request, I would be glad to give it; but if it is a special request, I would have to reserve judgment.

Senator COOPER. Now, during the course of the war, the Government was interested in the production of industrial alcohol?

Mr. FENDERSON. Yes.

Senator COOPER. Did you develop your plant capacity for the purpose of producing industrial alcohol?

Mr. FENDERSON. No.

Senator COOPER. Did you increase it in any way?

Mr. FENDERSON. No.

Senator COOPER. What was the purpose of the \$15,000,000, then, that was made available by the Government?

Mr. FENDERSON. It was for two purposes: To permit our plant to grind its own grain, rather than to buy preground grain; and secondly, to recover the byproducts, the feed that was discussed here today.

You are from Kentucky, and I know you know all of these things, but our fermenting capacity and our distilling capacity were the same before the war as they are today.

Senator COOPER. After the war, when did you begin to get the production of whisky?

Mr. FENDERSON. The first production of whisky permitted during the war was in August of 1944.

Senator COOPER. What other types of alcohol have you been producing since that time?

Mr. FENDERSON. We produced industrial ethyl alcohol and butanol and acetone, and those are the major products of that plant other than neutral spirits.

Senator COOPER. What has been your average production of whisky and neutral spirits since the war?

Mr. FENDERSON. Since the war, Senator, from August of 1944 until November 30, 1946, this industry was controlled either by the War Production Board or by the Department of Agriculture with respect to its grain usage.

The War Production Board—they had no concern with industry matters. Their only concern was with the volume of alcohol needed for the war effort, and periodically they released the industry a month at a time to produce or not to produce whisky and neutral spirits as it chose.

Senator COOPER. When this free period to which reference has been made was had, how much whisky did you produce and how much was neutral spirits that you produced?

Mr. FENDERSON. The free period that has been referred to is the period of December 1946 until October 25, 1947. That period saw a great many changes in the distilling industry.

For one thing, it was a period of falling sales for the whole industry. For another, some distillers had what they thought was too little whisky and others thought that they had enough.

For a variety of reasons, every distiller followed his own production pattern.

Senator COOPER. I can understand the various reasons, but the question is: How much did you produce?

Mr. FENDERSON. Our total production in that period?

Senator COOPER. Yes.

Mr. FENDERSON. I do not have those figures with me, but they are available from the Government.

As a matter of fact, the Department of Agriculture has them and can give them to you.

Senator COOPER. Are you able to make any statement as to the amount of grain that you ground for the production of whisky or distilled spirits during that period?

Mr. FENDERSON. I have something here which I think will answer your question.

Here is a table upon which I understand the Distilled Spirits Institute based its choice of the base period, December of 1946 to March of 1947.

Senator COOPER. You certainly must be well acquainted with the amount of grain that you used for distilled spirits.

Mr. FENDERSON. Senator, I am not trying to evade your question. I can give you an idea right here.

In this table, prepared, I understand, for the use of the Distilled Spirits Institute, the production of beverage spirits in the United States is broken down according to States, and it is very interesting that, after the total is reached, the State of Pennsylvania is set out separately. That is for the reason that we are the predominant factor in the State of Pennsylvania. That shows that for the months December 1946, January 1947, and so forth, through June, which is as far as this table goes, production in Pennsylvania was 14 percent of the total in December; and 17 percent in January; 14 percent in February; and 7 percent in March; 6 percent in April; $2\frac{1}{2}$ percent in May; and 2 percent in June.

Now, I think that that is probably a fair representation of our percentage of total beverage-spirits production in those months.

The interesting thing about that table, from my standpoint—

Senator COOPER. The whole purpose of this is to determine how much grain shall be used. Do you know how much grain you used in the production of whisky and neutral spirits during this period?

Mr. FENDERSON. No, sir; I don't know. It is a matter of Government record, and I am not trying to conceal anything from you.

Senator COOPER. I should think it would be very important to you to know how much you did use.

Mr. FENDERSON. We do not attach as much importance to the historical period as our competitors do.

Senator COOPER. There has been some comment on the large use of purchase of grain in the period beginning October 1 and October 24, where there were some 8,000,000 bushels purchased.

Mr. FENDERSON. Yes.

Senator COOPER. Did you purchase grain in that period?

Mr. FENDERSON. Every distiller in the country did who was in a position to produce anything.

Senator COOPER. Did you increase yours?

Mr. FENDERSON. We certainly did. However, Senator, I would like to remind you that we were in favor of shutting down, and would have shut down, on October 15 if the rest of the industry had agreed to, and I would say that the bulk of the grain use was after that date.

Senator COOPER. Do you know how much you used in that 24-day period?

Mr. FENDERSON. I will be glad to give you those figures if the rest of the industry will also. I will say that our figure was not out of line with our capacity. I think that we got our share and no more.

Senator COOPER. Are you able to state the answer to this question: Do you know what your use of grain was during this so-called free

period up to October 24, and can you state what portion of that production you have been able to maintain by the formula that was adopted by the Secretary of Agriculture?

Mr. FENDERSON. Yes, sir; the formula adopted by the Secretary gives our companies, all of our plant, about 14 percent of the total grain allotted to the industry.

Now, on the basis of $2\frac{1}{2}$ million bushels, I believe that would be about 360,000 bushels.

Senator COOPER. How would that relate to the amount of grain that you have been using in the months prior to that time?

Mr. FENDERSON. Well, Senator, looking at December 1946, which was the first free month, we used 14 percent in that month, according to these figures, and 17 percent in January, and 14 percent in February.

Senator COOPER. You said that you used about how much under this present formula a month?

Mr. FENDERSON. It was 361,000 bushels of the allotment.

Senator COOPER. Are you able to state what your average use was in any period, say, over the period before that allocation went into effect?

Mr. FENDERSON. Well, I can state it to you this way: The Secretary of Agriculture released a table to the industry at one of the last meetings in December, in an effort to get a voluntary program going, and I think it will answer the question.

It shows the figures for the entire fiscal year ending June 30, 1947, and it shows production by each of the four big companies, and our companies, and all other companies lumped together.

The total production of National Distillers Product Corp. is, as a percentage of the total used, 9.7 percent; Schenley was 13.1 percent; Distillers Corp.—Seagrams, 19.6 percent; and Hiram Walker & Sons, 4.7 percent. Publicker's production during the over-all period was 9.8 percent.

That year included a period in which the whole industry production started to fall off—in March of the year; and different companies stopped producing at different times. We stopped earlier than some of the rest of them.

Senator COOPER. It is correct that during that period your average use was 9.8 percent of the total amount of grain used for distilling. Is that figure correct?

Mr. FENDERSON. This figure?

Senator COOPER. In that period you were using about 9.8 percent?

Mr. FENDERSON. Over the entire period; yes, sir.

Senator COOPER. How much is available to you, or was available to you, under the formula put into effect by Secretary Anderson?

Mr. FENDERSON. 14 percent.

Senator COOPER. Then you actually were permitted to use under his formula more than you had been using when you were free to use such amount of grain as you could purchase?

Mr. FENDERSON. Well, first of all, it is more in percentage but not more in quantity. Secondly, we don't think it is unfair, and for two reasons: First, this industry consists of two basic types of distillers, the distillers who sell more than they produce and the distillers who produce more than they sell in the bottled goods. Now the reason you have the second category is because brand sales are so important. Every distiller is trying to establish his own brands. The big com-

panies have theirs established, and they sell more than they choose to produce, for reasons of their own, as revealed by this table.

The rest of the industry, our company, and the small companies and the independent companies, generally, are doing their best to establish their brands against that competition; and in the meantime they offer for sale their surplus production capacity and sell bulk whisky and neutral spirits to other companies.

Bulk sales have always been a regular part of our business, as they are a regular part of the business of the majority of the small distilleries in Kentucky.

Now, we think that that situation should be maintained and we should be given consideration for our normal business of bulk sales as well as for our bottled-goods sales.

Senator COOPER. I am assuming that 60,000,000 bushels of grain is the average use for the trade for the year, and prior to October 24 you were using grain on an average of about 60,000,000 bushels a year. You have 9.8 percent. And according to the formula of Secretary Anderson, you would be permitted to continue to use about 4,200,000 bushels a year.

Mr. FENDERSON. That is correct; but in the absence of Secretary Anderson's order and in the absence of an act of Congress, we are free to, and will, use 28 percent of the grain used by the distilling industry.

Senator COOPER. On what do you base that?

Mr. FENDERSON. I base it on this: For the next several months, I think this industry is going to run to its capacity; and if the rest of the industry choose to do so, we have no alternative but to follow, and the production in this industry will be dictated in this period by capacity of the plants.

Senator COOPER. It is true under this formula that this formula does work favorably to you, taking into consideration the past use of grain?

Mr. FENDERSON. Taking into consideration—

Senator COOPER. It is unfavorable to the other distillers, taking into consideration their past use of grain?

Mr. FENDERSON. That gets us into the question of whether we are going to have free competition or monopoly in this industry.

Senator COOPER. You will admit if you use the use formula, that upon the basis of use, you enjoy a favorable position?

Mr. FENDERSON. I don't admit that at all. We are being discriminated against, and for this reason: First of all, the historical principle is a bad principle for any business—

Senator COOPER. I am not arguing that. I am talking about the result. If you go up on the basis of prior use, his formula works to your advantage and to disadvantage of other members of the industry.

Mr. FENDERSON. I think that you put your finger on the basic fallacy and basic evil of the historical method, when you relate a company's current position with some past period. That past period is bound to be favorable to some and unfavorable to the others. What you should do is relate a company's present position to its present capacity and present conditions. We are entitled to, and we can, produce 28 percent of the industry's output currently.

I can find periods where we had 35 percent of the industry's output. I am not suggesting to you that we go back to that. I am not doing that.

Senator COOPER. Do you have a license to manufacture other types of alcohol?

Mr. FENDERSON. In common with the rest of the industry, we have the right under Federal regulation to operate our plant either for industrial alcohol or neutral spirits or whisky. That is a right that we have availed ourselves of and which is available to every other member of the industry.

We have chosen to maintain our production and use our capacity to the limit wherever we can do it profitably. The same choice is given to the other companies. They have the same rights and privileges.

Senator COOPER. Since October 24, have you raised the price of neutral spirits that you sell to other distillers?

Mr. FENDERSON. No, sir. We have not.

Senator COOPER. There has been no increase of price of neutral spirits?

Mr. FENDERSON. Not since October 24. No, sir.

Senator COOPER. What is the price today?

Mr. FENDERSON. I don't believe we are offering any spirits for sale today, because we have none for sale. The last price at which we sold it was \$1.25 a proof gallon.

Now, there has been some testimony here that the price was 65 cents in the summer, and some people have complained that the price went up. Well, unfortunately—and I think this is really the major issue before this committee—every time you want to buy something these days, it seems to have just gone up.

Senator COOPER. You were manufacturing whisky and neutral spirits continuously, from December of 1946 up to October 24, 1947?

Mr. FENDERSON. No, sir; we were not. The fact of the matter is that the entire industry went through a period of readjustment during that period because whisky stocks had risen to a very high level. Some distillers curtailed their production sooner, and some later, but the industry as a whole reduced their capacity drastically, and continuing up to September of 1947.

Senator COOPER. How much of that time had you been operating?

Mr. FENDERSON. We were operating at reasonably high rates of production from December through February, and from there on we curtailed operations pretty drastically and other companies followed us and did the same thing. Schenley curtailed its production sharply starting in March.

And here is another fallacy of the historical system. Different people produce at different times for different reasons and there is no pattern in this industry. There is no stabilized production pattern unless it is thoroughly controlled and thoroughly monopolized and the production is parceled out.

If this were that sort of industry—which apparently is the end at which some people are aiming—then you might have a current allocation system which would be reasonable and fair to everybody because their present position would be no different from their past; but this industry since repeal has been subject to all sorts of disturbances, war, the need to establish inventories, and the need to establish brands, and there is no historical period since 1933 which would be fair to everybody in the industry.

Representative HERTER. Mr. Hart, Congressman Wilson has got to catch an early train and we promised that he could testify at 4 o'clock today.

I am just wondering whether Mr. Fenderson, in case members of the committee wanted to question you some more, whether you could be available in the morning.

Mr. FENDERSON. I certainly could.

Representative HERTER. And I understand that you have another witness.

Mr. FENDERSON. And we are very anxious to have Dr. Burns' testimony read to the committee because it touches on this very vital question of the historical method versus the capacity method which we think is very important.

Representative HERTER. Will you be willing to put that off as a courtesy to the committee.

STATEMENT OF HON. EARL WILSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA, ACCOMPANIED BY E. B. DIETRICH, OF LAWRENCEBURG, IND.

Representative WILSON. Mr. Chairman and members of the committee, I apologize for the necessity of having to keep you here at this very late hour, but due to the fact that I have a meeting in Chicago tomorrow afternoon at 2 o'clock with members of the Federal Public Housing Authority and the American Legion and I must leave here at 7:45 in the morning, by plane, I cannot appear tomorrow.

Also, I have a committee here from the largest distilling districts in the United States, which committee has brought me some very pertinent material on this subject and would like to hear it presented.

For the record, I offer a creed, which was drawn up by the thousands of citizens which will be vitally affected by any grain curtailment or rationing order by the Secretary of Agriculture. This creed is the feelings from the very bottom of the hearts of these people, employees, and businessmen of this community.

The community of which I am speaking is Lawrenceburg, Ind. It consists of the city of Lawrenceburg, with a population of around 7,000, and then the people of the surrounding three or four counties who are employed at the distilleries there, Schenley's, Seagrams, and James Walsh.

This creed as drawn up by these people is as follows:

We are citizens of the United States of America. We are typical Americans interested in the economic prosperity of Lawrenceburg, a typical American community in southeastern Indiana, a typical American State.

We are interested in the economic prosperity of that community because our employment, our business, our livelihood is dependent upon the continued prosperity and welfare of that community.

Our Senators and Representatives in Congress by giving the President arbitrary power to allocate grain and to divert it into channels of his own choosing have in effect given him the power and authority to destroy the industry upon which we depend.

More is involved in this situation than mere money and jobs. To bring before the American people our views of the dangers to which we are exposed as a Nation, we announce our beliefs:

OUR CREED

We believe in a free economy in which men may freely work at jobs of their own choosing.

We believe in the right of men to engage in lawful business enterprises and to conduct them without arbitrary and discriminatory regulation and control by Government authority.

We believe that it is contrary to the principles underlying our form of government to give to any officer, bureau, or branch of Government the power to pick and choose what industry he will curtail or destroy. Today it is the distilling industry which is alleged to be a nonessential luxury and marked for death; tomorrow, cosmetics, drugs, jewelry, and hundreds of other industries giving employment to millions may likewise be marked for curtailment or death.

We believe that the grant of power given to the executive branch of our Nation to allocate grain and thereby to single out and mark for destruction one industry places an unreasonable and arbitrary power in the hands of one man or set of men.

We believe that the founders of this Nation designed a free system under which men could freely live and freely work, and that this power and authority, given to the executive department of the Nation, is a violation of that fundamental concept.

We believe that the method of those who seek the destruction of our liberties is exactly the one now suggested to the Congress. Not all at once but by degrees are we to be enslaved. Not by direct attack but by stealth and indirection are we to be deprived of our rights. The sapping and undermining tactics of former years is to be resumed.

We believe that any grant of power by Congress to allocate raw materials, in this case grain, tomorrow something else, under the guise of an easily contrived necessity, is but the entering wedge which will lead eventually to a government by planners and schemers, by bureaucrats and ambitious politicians and that government of law will be eventually destroyed.

We believe that the orders made which deprive any particular industry of the right to exist, are discriminatory and unfair.

We believe that our community is being unjustly discriminated against by orders which attack and curtail a lawful industry giving employment to thousands of citizens of this community.

Therefore, upon the basis of these beliefs, we petition our Senators and Representatives in Congress to defeat any bill pending or to be presented before the Congress of the United States which proposes to give to the President the power to allocate grain as being unreasonable, despotic, and contrary to the tenets of good government, and a violation of our basic and fundamental right to live, to work, to produce, and to be happy, contended citizens of a free America.

I also would like to remind you of the great economic importance of this industry to the Government as well as the people of that particular community. You people here are pinching pennies and hoping that the dollars will take care of themselves. I am looking after the little people, hoping that the big people will be able to take care of themselves.

Representative HERTER. Whom do you refer to when you are speaking of your people?

Representative WILSON. I am speaking of the administration which is trying to solve the starving people in Europe by looking for some way to save the 1 percent of grain which happens to be allocated or used by distillers.

In the first place, I questioned the approach to any problem or any serious-minded person who is seriously interested in trying to save grain and food, and I would go out to the place where only 1 percent of it is siphoned through and try to save any vast amount at that source.

I have with me a petition measuring 950,000 feet, with 9,750 signatures attached, of people whose economic lives will be utterly destroyed under a serious rationing program. This is a one-industry town. The pay roll of Schenley supports the people and all of the businesses of that town, even the farmers who are not directly engaged in agriculture are employed at the industry, and they depend somewhat on the food value of the distillate or the mash that has been distilled that they get from that plant to feed their cattle.

Those people all signed his creed that I have presented.

I also would like to remind you that of this small portion of 1 percent, I think perhaps according to the figures given by the gentleman preceding me, seventeen one-hundredths of 1 percent perhaps of the grain produced, their yields to the Government, the Department of Internal Revenue, would be one one-hundred-and-sixtieth of all the revenue of the United States. This little courthouse collects approximately \$300,000,000 in internal revenue fees each year, more than is collected in the entire city of Chicago.

Now that is important. Every dollar that is put into grain to be distilled produces many dollars and I am inclined to believe around \$15 of revenue for the Federal Government.

In this era of success or failure in arriving at a balanced budget, we should consider the economic importance of this thing to our own country.

I have with me some letters from people who are affected that expresses the sentiments of the people in that community, and here is one from Mr. Miedema, secretary of the Chamber of Commerce of Lawrenceburg, and Mr. Miedema happens to be here. I will read this letter in his presence:

Mr. Chairman and gentlemen of the committee: As a representative of the chamber of commerce, here is a typical comment made to me by a businessman of Lawrenceburg: I am a businessman. I own a men's clothing store in Lawrenceburg, but it could just as well be a grocery, or a feed store, or a filling station.

I don't work directly in the distilleries at Lawrenceburg, but my customers are almost entirely drawn from the employees of one of the three plants which are the jugular vein of Lawrenceburg's economic life. If you cut off the pay rolls on which my customers depend, you may as well give a "vacancy" sign because that is what will hang in place of my name sign on the day the distilleries close their doors.

Right now, I am a businessman, but still fresh in my thoughts are the 22 months I spent slogging through France. Frankly, I am worried about my GI loan. I didn't get rich enough in the service to be able to go into business on my own, but through the generosity of such far-seeing legislators as you gentlemen, I am independent, self-respecting, forward-looking and full of the brand of ambition which prompted my forefathers to settle Lawrenceburg on the Ohio.

How I am going to meet my monthly obligations and pay my employees if my customers are all on the 52-20 "dole" with only enough money to keep food in their mouths and the sheriff from their doors? Remember, I sell clothing, second on the list of human essentials.

I think that covers the high points of my problem, I believe it is worthy of your consideration as you ponder the President's request for grain controls which will "allocate" me out of economic existence. I stand before you, one small, independent merchant, but multiply me by thousands and I will be the headache you will have to cure within 6 months.

I have another one here from a laboring man:

Mr. Chairman and members of the committee; I am a laboring man. I work with my hands mostly, and I take pride in doing a good job. I take home my pay, I support my wife and family and I think, barring a long run of pretty bad luck, that I can secure our futures.

I am not prepared to argue the international implications of this grain allocation proposal of Mr. Truman's. I won't say that I don't care about other men in other countries whose families may be hungry, but I am trying to get justice at your hands and consideration of my problem so that I can keep my own family from knowing want and deprivation.

I repeat, I don't know how all this will affect others, but I know what it will do to my home town, to my family and to me, the kids and the dog in the back seat and my home-made trailer bouncing along behind.

And if I'm lucky, and you haven't offered any suggestions about where I'll find that new job I'm going to need, but if I'm lucky and find something to keep

me drawing a pay check instead of relief money, what assurance do I have that my new job won't be liquidated by the President or whoever wants this grain holiday continued?

I have a born right to a few things, or they told me I did, when I was in public school. I have the right to expect proper pay for my work; I have a right to have kids and educate them. I have the right to take my family to church and pay my bills without Government interference, but the same stroke that takes my job at the distillery will bankrupt my corner grocer, ruin the tax base of my county which will destroy my school community and my church community, and it will isolate my home as completely as if a tornado had picked it up and set it down in the middle of the desert.

I like Lawrenceburg, I like the friends I have made and the neighbors I live with. It's a good place to bring up my children. They will be good citizens if I can continue to feed and clothe them in the American way, by my work in a free industry.

This whole scheme seems cock-eyed to me, gentlemen, but I'm here to see that my personal, human problems are considered in the decision you are asked to make. I want to answer any questions you may have, which I am capable of answering.

I thank you sincerely for this chance to tell you my story. What I have said has been said with an earnestness you cannot appreciate until your entire life plan is threatened as mine is in this instance.

Representative **HERTER**. Might I interrupt you at that point? Have these individuals who wrote been told that if there is a curtailment that the entire plant will be closed up, or will it effect only the mashing end of it?

Representative **WILSON**. I think that we have the plant manager here. Mr. Dietrich, do you have a suggestion on that?

Mr. **DIETRICH**. The grain curtailment would not close the entire plant. I think the figures compiled on the Schenley plant at Lawrenceburg would be a lay-off of approximately 35 percent of the present working force.

Representative **HERTER**. Were they laid off during the holiday period?

Representative **WILSON**. I think that I can answer that, Mr. Herter. The people told me that they kept them on the job doing this little job and that little job, and keeping the plant up, and doing the chores that need to be done, and kept them on just as long as they possibly could, but they could not continue to do that at the time I talked with them.

This is a statement from the mayor of this town:

Mr. Chairman and the committee, I am the mayor of Lawrenceburg, Ind. As it often happens in small-town America, I am a grocer as well. As a public servant, sworn by oath to look after the welfare of my constituents, I must remind you of the loss of tax revenue which the destruction of our distilleries will mean. We boast of a \$25,000,000 tax evaluation. Eighty-five percent of our taxes are paid by the three distilleries of our town.

Considering our comparative wealth, we have expanded ambitiously, and our community pride and progress is second to none. We have built a fine sea-wall to protect our city. We have installed an unusually efficient and serviceable utility system for a town of our size. Our school system is envied by many of our surrounding communities. And, we point with pride to our fine new consolidated high school only recently completed. Our street development program is progressive and forward-looking. Our sewage disposal plant is almost new. Forgive the chamber-of-commerce tinge to these statements, but none of these public improvements would have been possible without the funds available to the community through distillery taxation. As spokesman for our city council and the servant of my friends and neighbors who elected me to public office, I cannot stand by and see a valuable unit of American life wiped out of economic and political existence. We have a right to share in the American way, for which many of our citizens and their forefathers have fought. I cannot approve the

action of the Federal Government which would destroy a unit of local government. Democracy is a system of wheels within wheels and if the little wheels are not preserved in running order, there will soon be no big wheels, mark my words.

Thank you for your time and attention, gentlemen, are there any questions?

Representative **HERTER**. If you have any letters that you would like to put in, we can put them in the record.

Representative **WILSON**. This comes from a minister and I would like to read this to give you a little light on the way these people look at it, who are broad-minded and who are directly affected.

Mr. Chairman and members of the committee, I am a minister by profession. I take pride in my church. I like to think that I am a Shepherd of a flock, since that has been the Lord's favorite analogy of a minister's role. I would be less than a friend and confidante of my parishioners if I prayed for their souls and forgot their human needs.

I say, that my people must have jobs to keep good in their mouths, clothing on their backs and roofs over their heads. If these human requirements are disregarded, I cannot vouch for the safety of their thinking, for the faith in their hearts or for their belief in our precious American way.

It is my political conviction that the state was created to serve the people. In this matter, as it will affect my town, it seems that the state is destroying, without compassion, an entire community of God-fearing, hard-working, tax-paying American citizens. I protest this arbitrary action. I cannot stand silently by and see Lawrenceburg, a fine, clean, little town, become the Lidice of Indiana and the United States.

I do not argue the question of merit of the product made at the local distilleries. I leave that for those who, in my opinion, would strain at a gnat and swallow a camel, where the livelihood of hundreds of good American citizens is concerned. My parishioners are employed in a legitimate industry, under the laws of the land, and should not be discriminated against without sympathetic consideration of the consequences such Government action will create.

I thank you for your indulgence and courtesy, gentlemen; may I answer questions?

Mr. **DIETRICH**. I would like to clarify that one statement on the lay-off.

You asked before if the men had been laid off during the holiday. I take it that you meant that 60-day period from October 25. That was during the seasonal period when these men could be absorbed and would be carried on the pay roll more cheaply than by letting them go and training new men.

However, after January 1 when there was a complete shut-down in our distilling operations, by Government order, then there was a drastic lay-off, in men, and those men have only recently been recalled to work.

Representative **HERTER**. Thank you very much, sir.

Mr. **DIETRICH**. Thank you.

Representative **WILSON**. I am going to go through this as rapidly as I can, and that will conclude my statement. I have copies of all of these things that have been said here which will be available to any of you who wish them.

As you know, I represent a district in Indiana in which a good many people make their livelihood in the distilling industry. In one town, Lawrenceburg, on the Ohio River, distilling is practically the sole industry that supports the community. These people take pride in the work they do. They consider distillery employment as honorable work, and under the laws of the United States of America it is. If

anyone were to suggest to my people that they are working in a second-rate industry, he would probably find himself on the business end of a fist.

We are getting pretty tired of having the so-called national grain shortage labeled a case of bread for the hungry versus whisky for the thirsty. So I am going to do some straight talking here today.

Anyone who knows anything about the underhanded attempts of this administration to cripple the distilling industry must realize that the President's recent message in behalf of a continued program of grain allocation is a plain fraud, unless, of course, the President is being fooled by somebody having ulterior motives.

Does the President of the United States seriously suggest that the job of managing our 6,000,000,000-bushel grain supply can be done by passing a law to save approximately a million bushels of corn per month between now and next November? This quantity, if saved, would be but a drop in the bucket to feed Europe.

Senator SPARKMAN. May I interrupt right there? Now, in his message did not the President carry out exactly the schedule that was laid out for him in the so-called anti-inflation measure which was adopted in the short session of Congress in December, a measure that was proposed by the Republican leadership and was put through by a Republican Congress? And if that is true, then I do not see how you can justifiably say that it is following that he is trying to work a fraud.

Representative WILSON. Senator Sparkman, I believe that by the time I have finished this statement your question will have been answered.

Representative HERTER. I do not think the Senator was here when the question was raised as to whether the procedure really was in conformity or not with that bill.

Senator SPARKMAN. I was not.

Representative HERTER. Because only one segment of the entire economy which is using grain has been brought into the picture instead of the other segments, and we have not been told how it will be made.

Senator SPARKMAN. We specifically provided in that measure for the curtailment or allocation of grain for the distilling purpose. That was set out as one particular segment of that measure.

Representative HERTER. You are referring to a different section of it, but this was under 6 (a) of Public Law 395, and I think the question was whether it conformed with that or not. I merely say that question has been raised.

Senator SPARKMAN. I am sorry that I was not here when the question was brought up more in detail.

Representative WILSON. I understand someone in the Department of Agriculture prepared the President's message. If so, I should like to ask Secretary Anderson a question:

Mr. Anderson, you testified last November, when the administration was trying to resurrect the OPA, that no plan for conserving grain would be worth much unless it provided for controls over all uses of American grain and especially for controls at farm level where 75 percent of our grain is fed, stored, or wasted. Now, Mr. Anderson, are you seriously suggesting that Congress forget all other users of grain and deal only with the 1 percent used by distillers?

The administration is doing a clever job of trying to pin a prohibitionist label on the Republican Party. After closing down America's distilleries for 2 months this winter and finding that a prohibitionist label is politically embarrassing, the administration is anxious to blame the Republicans who passed the anti-inflation bill. Mr. Truman would prefer to maneuver Congress into hamstringing the distilleries if such action is to cost someone political backing next November.

Mr. Chairman, my people are not fools. They see through this thing very clearly, and they are hoping you gentlemen will send the President's message back to him. He should be forced to abide by the law which says that if there is a critical shortage of grain in this country, that he must come before you with a stronger argument and a more straightforward statement of the facts than he gave you the other day in his grain-allocation message.

In that message, incidentally, Mr. Truman says that he cannot get a voluntary agreement from the distillers. He does not say anything about how he proposes to restrict other grain-using industries. But it is no secret that he is playing favorites. One of my constituents sent me a clipping taken from a recent New York Herald Tribune. It bears a Washington date line, and I found it most interesting. It seems that the Department of Agriculture called a series of conferences with representatives of various grain-consuming industries. The object was to get these industries to enter into voluntary agreements to restrict their use of grain. Briefly, the article describes what happened at the meetings.

The bakers of America said "No." The wet-corn millers of the country were not interested in restricting their use of corn. The poultry industry was against reduction of the Nation's poultry flocks or the cutting down of hatchery output of baby chicks. Maybe they remember the plowing under of little pigs when Wallace was Secretary of Agriculture.

The dry-corn millers and the wheat-flour millers straddled the fence. They could not make up their minds at the moment. The meat packers would not even discuss a rationing agreement with the Government's representatives.

The brewing industry would not agree to a rationing program acceptable to the Department of Agriculture. Why should the distilling industry voluntarily penalize itself and its innocent employees? Is this a food-saving plan, a face-saving trick, or is it a wet-and-dry issue? If the President wants to join the Prohibition Party, he has our permission, but we certainly hope the Republican Party does not waste its time in the lost crusade of the Drys.

Mr. Chairman, we suggest that you ignore Mr. Truman and the Secretary of Agriculture. Tell the President and Mr. Anderson that if they want the Congress to solve the grain shortage, you would like to know just how they want you to deal with the problem to provide grain foods for Europe and yet preserve a major American industry which pay some of the largest lump-sum tax assessments received at the Treasury. The administration has created a problem where there was none. It has seized a bear by the tail, and now hopes Congress will help the party to let go.

The prohibitionists and a few other minorities who want to see the distilleries shut down have been saturating Washington, the coloni-

nists, and the newspapers with propaganda that this is a case of bread versus whisky. So far as I know, neither the White House nor the Department of Agriculture has put out any such propaganda directly, but they certainly are following the party line when they tell us that the way to make sure that our domestic grain supply is properly distributed, as between various classes of grain users, is to shut down the distilling business or arbitrarily choke it to death by Government pressure.

Mr. Chairman, now I want to tell you where you can find the answer to the \$64 question of why the administration proposes to ration the use of grain by an industry which uses less than 1 percent of the total amount of grain produced in this country. They say it is to conserve grain for food. I contest that statement. The answer lies in the conclusions which were reached at a secret meeting held at the White House where this batch of political strategy was cooked up. In my opinion, the sole basis for the administration's grain rationing proposal is political. The considerations were not whether such a program would or would not save food; the considerations were, how will it affect the chances of the Democratic Party in the election next November. No time or thought was given to the food conservation argument until the political decision made necessary an excuse for such arbitrary action against a legitimate American industry.

Thank you very kindly.

Representative HERTER. Thank you very much. We will now recess this meeting until tomorrow morning at 10 o'clock. The room tomorrow morning will be room 324 of the Senate Office Building.

(Whereupon, at 6 p. m., the committee recessed until 10 a. m., Friday, February 6, 1948.)

ALLOCATION OF GRAIN FOR PRODUCTION OF ETHYL ALCOHOL

FRIDAY, FEBRUARY 6, 1948

UNITED STATES SENATE,
GRAIN ALLOCATION SUBCOMMITTEE OF THE
JOINT COMMITTEE ON THE ECONOMIC REPORT,
TOGETHER WITH THE
SENATE BANKING AND CURRENCY SUBCOMMITTEE ON
CONTROLS OF MEAT AND ALCOHOLIC BEVERAGES,
Washington, D. C.

The subcommittees met, pursuant to adjournment, at 10 a. m., in room 324, Senate Office Building, Senator Ralph E. Flanders, presiding.

Present: Senators Flanders (chairman of the subcommittee) and Sparkman.

Representatives George H. Bender, Christian A. Herter, and Edward J. Hart.

Present from the Senate Banking and Currency Subcommittee on Controls of Meat and Alcoholic Beverages: Senators Buck and Robertson.

Also present: Senator Cooper.

Senator FLANDERS. The hearing will come to order.

This morning we will proceed first to complete testimony from Dr. Burns and Mr. Fenderson, of the Publicker Industries, Inc.

Dr. Burns, have you any prepared material?

Dr. BURNS. I have.

STATEMENT OF ARTHUR E. BURNS, PROFESSOR OF ECONOMICS AT GEORGE WASHINGTON UNIVERSITY, ACCOMPANIED BY A. P. FENDERSON, ASSISTANT TO THE PRESIDENT, PUBLICKER INDUSTRIES, INC., PHILADELPHIA, PA.

Dr. BURNS. My name is Arthur E. Burns, of 6521 Thirty-second Street NW., Washington, D. C. I am an economist and a professor of economics at George Washington University and a consulting economist.

During 1944 and until I resigned in August 1945, I was Deputy Director of the Office of Materials and Facilities of the War Food Administration, and in this position became thoroughly familiar with the economic and administrative problems of allocating scarce materials by Government.

In my work as economic consultant I have had considerable experience with the allocation of commodities among firms for export, and in the allocation of commodities in domestic production. I have

been asked by Mr. Fenderson, of Publicker Industries, Inc., to present my analysis of the methods of governmental allocation of grain to the distilling industry.

I come before this committee to support the capacity method of allocating grain to the distilling industry. In my opinion it is the best method of allocation, superior to the historical use method and the historical bottle-sales method.

It is my conviction that governmental allocation should be guided by the following considerations:

One, allocations should maintain as closely as possible the competitive opportunities for growth and change which would prevail in the absence of control. Control should not stifle the continuous, dynamic process of competitive development.

Allocations should merely limit the supply and apportion this supply, and not hold in check the continuous process of competitive activity.

Two, allocation control should be abandoned as soon as the conditions which make it necessary pass away.

My experience with the practical problems and the economic consequences of governmental allocation convinces me that the capacity method would more nearly approximate the conditions of the competitive market than either the historical or the bottle-sales methods.

The reasons for my position are as follows:

One, allocations made in proportion to capacity take into account the underlying competitive positions of the firms in any industry. Capacity is essential to production, and without production no industry would exist. Without adequate productive capacity no business firm is in its strongest competitive position.

Two, industry today, the distilling industry and practically all others, can look forward to virtually full-capacity production. National income is at record levels, domestic consumption is unprecedented.

In the absence of control, and in the face of impending shortages, production in this industry in the months ahead would be limited only by capacity. Therefore, allocations should be in proportion to this capacity.

Senator FLANDERS. Now, may I interrupt for a moment?

Yesterday we were told that in the last 6 months consumption had gone off 20 percent. Is not capacity as a matter of fact beyond maximum production and if consumption has gone off 20 percent, does not that leave an excess of capacity?

Dr. BURNS. Senator, my comment here about consumption being at unprecedented levels does not mean the consumption of beverage alcohol. I mean consumption in general.

I refer to the high levels of national income and the high levels of consumption in general.

Senator FLANDERS. All right. You may go on.

Dr. BURNS. Three, the capacity method admits of free entrance into industry. New firms, if they are willing to risk their funds may build capacity, obtain an allocation, and get into production. This is in the tradition of free enterprise in this country.

Senator FLANDERS. Now, just a moment, there.

New firms, if they are willing to risk their funds, may build capacity, obtain allocation, and get into production. I wonder if that is free enterprise, when you say obtain allocation.

Does that not give them a protection which they would not obtain under free enterprise for a new firm?

Dr. BURNS. If, however, Senator, they built capacity under perfectly free conditions, they would be quite free to buy the materials required for production. In fact, a firm would hardly invest in capital facilities without reasonable expectation that when those are built they would be able to buy the materials.

Senator FLANDERS. I would still raise the question as to whether you do not, if you are to be restricted at all, get a protection in competition that you would not have if there were no restrictions on your production.

That is, with the restricted production you have an assurance of sales which you do not have with unrestricted production.

Dr. BURNS. There would be to that extent a difference between any control and a system of free markets.

Representative HERTER. May I ask a question at that point?

Where you speak of industry today, the distilling industry and practically all others can look forward to virtually full capacity production, that situation has existed for some time; has it not?

Dr. BURNS. That is right.

Representative HERTER. Well, during the free period a year ago, was it not testified yesterday that you operated at fairly high level in the first few months and then dropped off very considerably in the last few months of last year; is that not correct?

Dr. BURNS. That is perfectly true.

Representative HERTER. You were not operating to capacity during that whole period.

Dr. BURNS. Not during the whole period; and I should like to come to that point in just a little while, Congressman Herter.

Fourth, existing firms may expand capacity by additional facilities or by improving the efficiency of existing facilities; they are not frozen by historical performance.

This, too, is in keeping with our competitive economic traditions.

Five, the capacity method in short does not throttle the underlying competitive trends in industry. It does not freeze the various firms in any industry on the basis of some arbitrary period in the past.

Productive capacity measures the businessman's best judgment of his prospects in the industry. It represents a capital investment on which he hopes to receive a return.

It is the tangible, physical basis of an industry, and an essential source of production. In the distilling industry it is this physical capacity which converts grain into the final product. Capacity in the present period would, in the absence of controls, govern the usage of grain by the firms in the industry.

In recognition of this fact, and in fairness to those who have invested their capital in the capacity of the industry, the allocation of grain among firms should be in proportion to this capacity.

There is a practical method of measuring the capacity of firms in the distilling industry; namely, the records of full utilization of ca-

capacity. The Department of Agriculture has adopted this as the practicable measure of capacity. During the war and for a year following, capacity was the criterion used by the WPB for alcohol production. In fact the capacity method was generally used for contract and control purposes in war industries.

I would now like to state my reasons in opposition to the historical method of allocation. These objections are based on my experience with this method of allocation, and upon the economic shortcomings of this method.

One, any base period used in the historical method is arbitrary. In any given period in the past, some firms are likely to have near-capacity levels of output, others low levels, and some may be temporarily out of production entirely. Since the war, many disturbances have affected firms differently in industry.

Labor shortages, material shortages, plant change-over, inventory problems, varying price and sales expectations, working capital problems, and other factors impose a considerable diversity in the productive activity of different firms.

Establishing allocations on the historical method therefore usually discriminates against some firms which are temporarily producing at low levels, and gives advantages to others. This fact caused endless business and administrative problems in those industries controlled by the historical method during the war.

As a result, exceptions and modifications had to be made until, in many cases, the historical method was virtually scrapped. It is not a practicable scheme to impose on any dynamic industry.

Two, when the historical method employs a base period of long duration and some time back, it is unrealistic. It ignores the growth and change that characterize the competitive process in American industry.

At this point I would like to add to my statement that yesterday Mr. Walton of Hiram Walker made a plea for the historical use method. However, quite unwittingly he demonstrated the arbitrary and capricious character of this method.

He expressed satisfaction with the base period including December 1946, through June of 1947, because this would give his firm a favorable quota.

Under questioning, he expressed dissatisfaction with the base period 3 months shorter. It would give somebody else too much and Walker too little.

To emphasize the point, when Congressman Herter asked if this change in base period would alter allocations, Mr. Walton said that it certainly would. If 3 months more or less will produce such changes in allocated amounts, the historical method is demonstrably capricious even in the eyes of its advocates.

Among themselves big companies have difficulty on agreeing upon what should be a base period. Schenley's production declined during the second quarter of 1947, and consequently they would not go along with any base period beyond the months following March of 1947, although Hiram Walker and other members of the Distilled Spirits Institute favored inclusion of the later months.

This industry simply has no representative base period. It began practically from scratch with repeal in 1933, and it took 4 or 5 years

to build up stocks. During this period, nothing resembling normal conditions characterized the industry.

From 1938 on through the war, the industry went through a great concentration movement. According to the Federal Trade Commission report before the House Judiciary Committee, the Big Four had increased the number of distilleries operated by them from 5 in 1933 to 41 in 1945.

In this year, the Big Four through mergers had the capacity to produce more whisky than had been produced by the entire industry in 1939.

Wartime controls and the sporadic controls since the close of the war made impossible any stabilization of the industry up to the present date. Therefore we simply look in vain for that mythical representative base period which some members of the industry propose as a method of establishing grain allocations.

Now, the third point is that the historical method excludes new firms because they have no history for the base period. If exception is made for such firms, experience shows that they get tangled in administrative red tape, must pay the cost of lengthy delays, and end up with a trifling allocation.

Four, this method throttles many small firms which otherwise would forge ahead in the competitive struggle for a place in the industry.

In short, the historical method of allocation is economically indefensible. It imposes a static relationship on industry and seriously damages the competitive character of business. The impracticability of this method recently led the Senate Small Business Committee to condemn it and the Commerce Department to abandon it as the basis for licensing exports.

In a report on the steel industry on January 16 the Senate committee states that—

The historical quota system of steel distribution has not operated satisfactorily, either with respect to old customers, or with consideration for new customers, or changing factors of manufacture.

Two weeks previous, on December 31, 1947, Secretary of Commerce Harriman authorized the issuance of Current Export Bulletin No. 431, which states that—

The historical method of selecting exporters has become increasingly anachronistic.

Exports are now to be regulated on a basis—

which permits shipments most closely approximating those which would take place in the absence of any United States Government restrictions on exports.

This latter principle, applied to the allocation of grain to distillers, is most effectively embraced by the capacity method, and it is most consistent with the traditions of private enterprise in this country.

The bottle-sales method has been advanced by some groups as the appropriate method of allocating grain to the distillers. This method is a transparent device to foster monopoly in the industry.

I should like to dispose of it with a few observations:

(1) The bottle-sales method ignores bulk sales. Some distillers make only bulk sales; they would get no grain. Others bottle less than they distill; these would be cut down.

On the other hand, the Big Four bottle more than they distill. In 1947 they distilled approximately half of the amount of their bottle

sales. This method, therefore, would benefit them. It would divert 75 percent of the grain to them.

(2) The specious character of the argument in favor of this method is evident when it is generalized. Should raw materials be distributed on the basis of end-product production? If so, fertilizer would go to canners and bakers, feed to the meat packers, and raw cotton to the finishing mills.

3. It is said that the bottle-sales method follows consumer-brand preference. This point has no standing. The Big Four themselves do not acquire grain in accordance with brand preferences; they normally buy large amounts of whisky in bulk from other distillers who buy the grain and make it into whisky. Government, therefore, should not do for them what they chose not to do for themselves in a relatively free market.

4. The argument for the bottle-sales method also brings out the point that the big distillers must pay a high price in the market for bulk whisky and neutral spirits.

As buyers the big distillers are in no different position from any of us as consumers, or from any other business. We pay more now for what we buy than we did a year or several years ago. The big distillers had their choice; they could have acquired capacity to match their sales volume.

That they may have made the wrong choice is no reason why Government should be the instrument of correcting the mistakes of free choices freely made.

In conclusion, I should like to say that governmental allocation of supplies, to producers, to exporters, and to consumers, is a radical departure from the traditional economic practices of this country.

It disturbs and often disrupts the usual method of allocation achieved by the normal market processes of the economy. Interference with the basic economic processes, free choices, and customary practice can be validly justified on the basis of (1) war; or (2) emergency, economic, or political in character, which requires in the national interest a temporary setting aside of the market influences which govern the operation of an industry.

The restriction of grain for distilling purposes is in the public interest, and allocation is therefore necessary. No allocation method is perfect, and probably no method will command agreement from the industry. The method selected, in my opinion, should be one which permits conditions to exist in the industry which most closely approximate those that would exist in the absence of Government controls.

In my view, the capacity method, more effectively than any other, meets this test.

Senator FLANDERS. I would like to inquire whether it is a part of your support of the free-enterprise system that those with the capacity and under control conditions should find it reasonable to charge all that the market will give them for their supplies of neutral spirits to the other distilleries. That is a part of the free-enterprise system.

Dr. BURNS. They take the market price when they sell their product; yes.

Senator FLANDERS. And the market price in part is made by the fact that there is an allocation on the raw material?

Dr. BURNS. That is right, the limitation of the supply through allocation very likely would mean a higher price than would be the case if they could get all of the grain they wanted for distillation.

Senator COOPER. Are you familiar with the practices of the Publicker Co., during the period October 1 to October 24 with respect to the production of neutral spirits?

Dr. BURNS. I understand that they operated at high levels of output.

Senator COOPER. Before October 1, and under a competitive system, the Publicker Co. was not producing at all; is that correct?

Dr. BURNS. In the industry, Senator, it will be found that the greatest variety of operations can be found. In some periods other big companies, Schenley, for example, drastically cut down their production early or in the middle part of 1947.

In any given period it can be expected that some, for reasons of their own, will be operating at full levels, and others will be at low levels, and some closed entirely.

Senator COOPER. But to get down to facts, in the only free competitive period that the industry has had since the close of the war, I assume that period beginning December of 1946 until October 1, were there not 3 or 4 months that the Publicker Co. did not operate at all?

Dr. BURNS. At least, they were operating at low levels of output, in the latter part of that period, and very high levels in the early part of that period.

As I understand it, some of the big companies, Schenley operated at very low level output in the latter part of that period. I also understand that during this period, some of the companies decided to produce as much of the distilled spirits as they needed in their own plants, and cut down their bulk sales so not only did Publicker and Schenley and a few others reduce their output during some months in this period, but as I understand it, many of the small distillers who lost their bulk-sales market closed operations entirely.

We will get the greatest variety in any given period.

Senator COOPER. From October 1 or October 24, after it became apparent that some type of controls would be imposed, is it not true that the Publicker Co. operated at a very large volume, at almost capacity?

Dr. BURNS. That is right. They operated at very high capacity, and the further fact is that everybody else did, and beyond that, as the testimony stated yesterday, they had urged that controls be imposed, I believe on the 15th of October, rather than on the 25th. They wanted curtailment earlier than it was accomplished.

Senator COOPER. Is it true that in that period out of 8,000,000 bushels of grain that was used or crushed, that the Publicker Co. used about one-fourth of that?

Dr. BURNS. I do not know the figures; Mr. Fenderson could probably give them to you, but that would be rather consistent with their capacity. They have possibly about one-fourth of the productive capacity of the industry.

Senator COOPER. Mr. Fenderson testified yesterday, as I remember, that in the period prior to that time they had used about 9.8 percent of the grain, and is it true that in the period beginning October 1 to October 24, that the Publicker Co. used about 29 percent of the grain used in liquor? Did they use that percentage in that period?

Dr. BURNS. In that period when they used 9 percent, is the period from December 1946 through October of 1947.

Senator COOPER. In that period, October 1 to October 24, it did crush a large amount of grain and manufacture neutral spirits?

Dr. BURNS. Yes.

Senator COOPER. What was the price of neutral spirits on October 1?

Dr. BURNS. That I do not know; Mr. Fenderson could probably give it.

Senator COOPER. Was it true it was about 65 cents a gallon?

Dr. BURNS. I heard that figure yesterday, and I assume that that is about right, although I do not know.

Senator COOPER. At the end of that period, is it true that the price of distilled spirits went to about \$1.25 a gallon; is that correct?

Dr. BURNS. That is my understanding from the testimony given yesterday.

Senator COOPER. I just want to bring those facts out and to pursue the inquiry made by Senator Flanders as to the price of distilled spirits under a system of controls as against a free market.

Dr. BURNS. I see.

Senator FLANDERS. I would like to interrupt the testimony for just a moment before I forget the document which is to go in the record.

It is a letter from American Veterans Committee, approving of the continuance of controls.

(The letter is as follows:)

AMERICAN VETERANS COMMITTEE, INC.,
Washington, D. C., February 5, 1948.

The Honorable RALPH E. FLANDERS,
Chairman, Subcommittee on the Economic Report,
Senate Office Building, Washington, D. C.

DEAR SENATOR FLANDERS: The American Veterans Committee (AVC) wishes to urge prompt and favorable consideration by your committee and by the Congress of legislation renewing the limitation on the amount of grain which may be used by distilleries.

We believe that the President's message of January 29 constitutes a thoroughly convincing demonstration of the great need for continued conservation of grain. It is unthinkable that the liquor industry, in resisting this moderate reduction in the amount of grain available for its use, should thus ignore or minimize the plight of starving men, women, and children in Europe and elsewhere.

As veterans who fought for the preservation of the democratic way of life and for an abiding peace, we demand that these objectives be not imperiled by a handful of selfish men.

Sincerely yours,

CHAT PATERSON, *National Chairman.*

Senator SPARKMAN. I would like to ask a question or two before Dr. Burns resumes.

I take it from your statement that you believe that allocations are necessary and desirable?

Dr. BURNS. That is right; I do.

Senator SPARKMAN. And you are advocating the capacity basis for allocation, rather than the historical basis?

Dr. BURNS. That is right.

Senator SPARKMAN. The President in his message, if I remember correctly, recommends a combination—or, rather, in the proposed order that has been drafted, as I understand, there is a combination of the two methods; is that not right, Dr. Burns?

Dr. BURNS. That is right.

Senator SPARKMAN. Do you think that that would be workable?

Dr. BURNS. I would like to make my point clear by this statement: that in reviewing the various methods, I think of the three discussed here the capacity method is the best.

Now, for various reasons, taking care of small producers, let us say, possibly for some other reasons, it might be deemed advisable by Congress or by the administrative agency to modify the method.

My argument in favor of the capacity method is not necessarily one that insists upon exclusive use, because I do believe that there are probably other considerations which ought to be taken into account.

But admitting that, it does not deny my basic position, which is of the three methods the capacity method is best.

Senator SPARKMAN. You recommend, if you were drawing up the order yourself, you would use a capacity basis?

Dr. BURNS. Tempered, let us say, by consideration of these things.

Senator SPARKMAN. Saving clauses in order to avoid undue hardship.

Dr. BURNS. Yes.

Senator SPARKMAN. As I interpret the proposed order, it combines not only the capacity basis and the historical basis, but also it has a saving clause in there to take care of undue hardships for the smaller companies.

Dr. BURNS. That is right.

Senator SPARKMAN. In other words, I believe the minimum allotted under that is 6,000 bushels.

Dr. BURNS. That is right.

Senator SPARKMAN. Is that true?

Dr. BURNS. Yes.

Senator SPARKMAN. Now, I just want you to regard less of what your own recommendation is, since that is the proposed order; I want to find out if you think that that order is workable and that it may be fair and equitable.

Dr. BURNS. I should say that it would be workable. It is infinitely better than using merely the historical method or the historical bottle sales method.

It is a compromise between those who want the historical use method and those who want the capacity method.

Senator SPARKMAN. Do you believe that anybody under that proposed order will be unduly hurt? Will they be unduly discriminated against?

Dr. BURNS. That is rather difficult to say. There are 135 or 139 distilleries in the business, and it would be very difficult to say that all of them would be dealt with fairly.

Senator SPARKMAN. And, of course, if you applied either one of the methods by itself, there would be some probable discrimination.

Dr. BURNS. Either one would cause some hardship; that is right.

Senator SPARKMAN. And I am wondering if the plan that has been worked out does not perhaps take care of all of them on an equitable basis just about as well as any plan that could be devised.

Dr. BURNS. As I say, to answer that "yes" or "no"—and that is what you would like me to do—would require knowing the details of each individual distillery.

Certainly, so far as the capacity part of the formula is concerned, no distillery would really be hurt, because they have all their capacity, and they would get at least half of the allocation in proportion to that capacity.

Now, so far as the other half of the formula is concerned, in historic use there might be some, in any particular period selected, who because they normally sold to a big distillery and that distiller decided not to buy from them in any given period, might be closed down entirely. Therefore half of the formula would be to their disadvantage, although to their advantage would be the fact that they could get part of their allocation based upon capacity.

Senator FLANDERS. Would you feel that under the proposed allocation, or the proposed formula, it is better to have allocation under that formula than no allocation?

Dr. BURNS. I certainly think so, Senator. An allocation is necessary to restrict the use of grain, and a formula for dividing up the limited amount of grain among the distillers is absolutely essential.

Senator FLANDERS. I would like to raise a question as to the third method, which you have called the bottle sales method.

Suppose this third method were denominated a replacement method and were modified so as to distribute the grain supply on the basis, if possible, of the source of the alcohol in the sales, so that it became a true replacement method.

What would you say to that, if it were administratively feasible?

Dr. BURNS. I should say, Senator, that it would really make very little difference. That it is virtually the same as the historical or bottle sales method because their replacement is governed by—or their need for replacement would be governed by—their current sales of bottle goods.

Senator FLANDERS. That would seem to leave the Government neutral in the whole question, if they simply provided for the replacement of the alcohol from whatever source it came.

I do not know that it is administratively feasible, I am just raising the question.

Dr. BURNS. There is a further point on that, Senator, that any production now—

Senator FLANDERS. I am speaking of any sales now.

Dr. BURNS. Well, any production now is for sales for years hence, because the whisky has to be laid away for 4 years.

The replacement of current sales or an allocation based on replacement of current sales ignores the impact of that allocation on sales 4 years in the future.

Senator FLANDERS. I find that the witness does not agree with the idea of attempting to have the Government completely neutral in the thing from my standpoint, and that would seem to be the ideal way of doing it.

Dr. BURNS. I should say that the most neutral policy on the part of government would be to take into account the capacity of the industry, because the capacity represents each firm's best judgment of its prospective place in the business.

Those judgments were made for a variety of reasons, and were made some time in the past, and to take into account those judgments seems to me to be a relatively neutral position rather than take some other

formula which would allocate the grain in a way that is very much different from the pattern of capacity in the industry.

Senator FLANDERS. To make the argument apply directly to the organization with which you are connected, would you not have to say that apparently the Publicker capacity is due to the high requirement for grain spirits for war purposes?

Dr. BURNS. Not the capacity itself, Senator; as Mr. Fenderson brought out yesterday, the amount of capacity as such before the war and now is exactly the same. The governmental additions involved an expansion of crushing facilities and the use of the distillers' wastes. It did not, as I understand it, increase the actual capacity of the firm to produce distilled spirits.

I should like to check that with Mr. Fenderson to be sure of that statement.

Senator FLANDERS. What you are saying is that you had an excess distilling capacity above your crushing capacity previous to the war expansion.

Dr. BURNS. I think that there is no necessity in the industry to maintain both capacities on an equal basis. I think it rather customary to bring in the grain crushed, and run it through the plant.

But again that is a detail in the operation of Publicker Industries which I think Mr. Fenderson could and should answer better than I.

Senator FLANDERS. Senator Robertson, did you have a question?

Senator ROBERTSON. I was glad to hear you say that you thought that the need existed to curtail the use of food grains in the making of liquor, because I expressed that viewpoint the week before last on the floor of the Senate, and I was a member of the subcommittee of the Banking and Currency Committee that framed and helped to put through the Senate a bill for the temporary continuance of the departmental allocation, pending the framing of legislation that continued the restricted use of grain until a new crop came in, and on a basis as fair as possible.

I was interested to read last night in the Christian Science Monitor an article entitled "Bread or Booze, Liquor Claim Disputed," and I want to ask your opinion concerning the verity of some of the statements made in that article.

I note, for instance, that the article said:

A Department of Agriculture spokesman estimates that if the distilling plants use the same amount of grain as used during the fiscal year ending June 30, 1947, they would use in excess of 10 percent of the commercial supply of grain, and this year nearer to 20 percent, based on the total domestic commercial use. Agricultural officials take issue with the industry's statement that the use of corn for distilling does not deprive America and the world of a single slice of bread.

Do you agree with the figures used there by the Department of Agriculture?

Dr. BURNS. The figure of 10 percent of the commercial supply, I believe, is approximately correct. The further point is sometimes made that the distilling industry uses a very, very small fraction of the total supply; that is, the total supply.

Most of it remains on the farm. But the commercial supply is acquired at the rate of 10 percent, or was in that particular year.

I should say that the point made that the use of grain for the making of alcohol does not deprive anybody of a slice of bread is simply

wrong. To be sure, the industry uses corn, and hardly any wheat, but if they did not use the corn, that corn would go into the feeding of livestock, and therefore that much wheat would not have to be fed to livestock and that wheat, then, could go into the making of bread.

Senator ROBERTSON. On the basis of nobody loses a slice of bread, this articles says that the Department of Agriculture figures for the 1946-47 fiscal years showed that the distillers—

consumed 17.7 percent of all of the corn, barley, rye, grain sorghum, charged off to commercial use. Distilleries used up 17.6 percent of all of the corn sold off American farms, 28 percent of the grain sorghum, 14.7 percent of the barley, and 40 percent of all of the rye produced for market.

Whisky consumed 67,000,000 bushels of grain, all told, enough to sustain 67,000,000 people for 53 days at the present level of subsistence abroad. Last year American whisky took more than 4,500,000,000 loaves of bread out of the mouths of starving, war-famished people.

Are those figures correct?

Dr. BURNS. Senator, I would not want to say right off-hand that those figures are correct. If they come substantially from the Department of Agriculture they probably are quite all right.

I think what the figures do bring out is that the large volume of usage of grain by the distilling industry does reduce the amount of grain available for the making of bread.

Senator ROBERTSON. How many slices of bread are there in a loaf of bread?

Senator FLANDERS. It depends on who cuts it.

Senator ROBERTSON. If they cut it at the bakery, like most of it is now sliced, how many slices are there in a loaf?

Dr. BURNS. I should say, making a pure guess, about 25 or 30; would you not, Senator?

Senator ROBERTSON. Take whichever figure that you can multiply easier in your head, you are a statistician, how many slices would there be in 4,500,000,000 loaves? I want to see how wrong that one slice was.

Dr. BURNS. 4,500,000,000 times 25. I would say approximately 112,500,000,000 slices of bread.

Senator ROBERTSON. And what would be the percentage of error in the one-slice statement?

Dr. BURNS. That I do not know, Senator.

Senator SPARKMAN. Let us accept the statement.

Senator ROBERTSON. When I was a boy living in the mountains of Franklin County, Va., there were not but two kinds of liquor, one was stamped liquor and the other was moonshine liquor.

Senator FLANDERS. Senator Cooper wants to know if that still holds.

Senator ROBERTSON. Well, I am sure they are very law-abiding like they are in the mountains of Kentucky, sir.

Senator COOPER. Knowing our situation, that is the reason I addressed that question to you.

Senator ROBERTSON. In those days nobody ever heard of blending whisky. Was that not largely a produce of post-eighteenth amendment days?

Dr. BURNS. I believe the figures show that since 1933-34 the percentage of the total made up by blended whisky has been quite large, and has been increasing to the point where now it is about 85 percent of the total sold.

Senator ROBERTSON. Eighty-five percent last year was blended whisky.

Dr. BURNS. That is approximately correct; yes, sir.

Senator ROBERTSON. How do you make blended whisky?

Dr. BURNS. Could I ask the experts, the makers of the product, to answer that?

Senator ROBERTSON. I was just wanting to know what is the principal ingredient.

Mr. FENDERSON. May I answer that question?

The principal ingredient is what is known in the trade as neutral spirits, practically identical with grain alcohol. It is a better product, when made as it is in our plants, where it is further refined.

Blended whisky is about two-thirds neutral spirits and one-third old-fashioned Virginia and Kentucky whisky, old-aged whisky.

Senator ROBERTSON. If 85 percent of what they drank last year was neutral spirits, was blended whisky, and two-thirds was neutral spirits, what percentage of what they drank was raw alcohol?

Mr. FENDERSON. I can answer that quickly for you, because Assistant Secretary Brannan testified on that point yesterday. He said, of the total whisky consumption in the United States last year, only 40 percent was what is known to the trade as straight whisky, either sold straight or bottled in bond or as the whisky complement of blended whisky. So 60 percent of the total consumption was neutral spirits.

Senator ROBERTSON. I thought this would be a good time to advertise a little bit what the American people are drinking, because some of them do not know, unless they are raised in the mountains of Kentucky, what fusel oil means.

Senator COOPER. I suggest that you seem to be the expert on this question.

Senator ROBERTSON. Is it not true that Canada requires the neutral spirits that go into blending to be aged for 2 years?

Mr. FENDERSON. They have an immature spirits act which applies to neutral spirits as well as whisky, and under that act both must be aged for 2 years. However, there is a very important difference in the aging methods in Canada and in the United States. In order for whisky to age in the United States, it must be put in new charred white-oak barrels; but in Canada whisky is aged just by getting older—it can be stored in anything, even in a steel tank, and it ages. But in protecting the American consumer in this country, the Congress and the FAA have decided that whisky gets older only in new charred white-oak barrels.

Senator FLANDERS. This is not for the record necessarily, but just for personal curiosity; what do you do with the old barrels?

Mr. FENDERSON. That is very interesting. To answer both questions simultaneously, neutral spirits cannot age in this country—no matter how old it gets, it does not get any age. If you keep neutral spirits in the barrel for 10 years, it is still zero years old, so far as labeling regulations are concerned. It is becoming the practice among the leaders of the industry to age neutral spirits, even though they cannot make any claim for it on the back label, because they think it makes a better product in the bottle.

For that purpose, the second-hand barrels are being widely used. The used barrel makes a finer neutral spirit.

Senator FLANDERS. I thought the neutral spirits from what you have just said did not change in aging.

Mr. FENDERSON. I hope that I did not say that.

Senator SPARKMAN. He said they did not get credit for it on the stamp.

Mr. FENDERSON. The distiller cannot make any claims for the change in characteristics which is principally one of aging and softening in the barrel. It does age, however.

Senator ROBERTSON. Blended whisky sells for less than bottled in bond, does it not?

Mr. FENDERSON. Yes; I believe it does. Everybody has his own prices, but that is generally true.

Senator ROBERTSON. The bottled in bond must have been aged for 4 years in a new charred barrel.

Mr. FENDERSON. In a wooden container; yes, sir.

Senator ROBERTSON. It must be charred, too?

Mr. FENDERSON. I would like it if the FAA would testify on that point. I am not an expert on that one.

Senator ROBERTSON. It appears that a majority of what the Christian Science Monitor labels "booze," that the American people consumed last year, was unaged neutral spirits. Is that correct?

Mr. FENDERSON. That is substantially correct; yes, sir.

Senator ROBERTSON. This article says that according to the Internal Revenue Department, 58,000,000 gallons of whisky and distilled spirits were withdrawn from bonded warehouses in 1947 for public consumption, leaving stocks on hand amounting to 464,000,000 gallons. Is that correct?

Mr. FENDERSON. That is correct.

Senator ROBERTSON. In addition to that, was there available for the trade 60,000,000 gallons of neutral spirits?

Mr. FENDERSON. The Department of Agriculture testified that the stocks today are substantially the same as the figures cited there.

Senator ROBERTSON. Is it true that the distillers last year made twice what was consumed?

Mr. FENDERSON. That was true for the last two fiscal years ending June 30, 1947; yes, sir.

Senator ROBERTSON. Is it true that an allocation on some proper basis of $2\frac{1}{2}$ million bushels of grain per month, the distillers could make all of the whisky that would be consumed in 1948?

Mr. FENDERSON. Senator, I would like to answer that question in this way: The stocks of whisky in warehouses consist first of whisky over 4 years old, and secondly of whisky under 4 years old. Now you cannot increase the supply of 4-year-old whisky in any way, you cannot make 4-year-old whisky today, so that nothing we do now will increase the supply of whisky for the market this year, nothing. The whisky we are producing now is for use 4 years from now.

Senator ROBERTSON. Do you have the figures on what is in warehouses that are over 4 years old?

Mr. FENDERSON. They were submitted for the record yesterday by the Department of Agriculture.

Senator ROBERTSON. It is over 2 years' supply that is over 4 years old. I did not see the figures, but I got them myself last week from the Alcoholic Tax Division of the Internal Revenue, enough to last I know on the basis of withdrawals for 1947, over 2 years.

Mr. FENDERSON. There is a supply of old whisky in this country adequate to meet the public needs for the next year, and from then on for some time in addition to that. There is also a supply of neutral spirits on hand, in this country—and pretty well distributed among the various distillers—to meet the public needs for from 6 to 10 months.

Senator ROBERTSON. And a production on a basis of $2\frac{1}{2}$ million bushels a month would replace what was consumed.

Mr. FENDERSON. It would depend on what we sell. It would certainly replace what we expect to sell this year.

Senator ROBERTSON. Did you say $4\frac{1}{2}$ million?

Mr. FENDERSON. There was testimony yesterday that in order to replace the industry's current requirements, which are of neutral spirits only, the industry would need only $1\frac{1}{2}$ million bushels for complete replacement.

Senator ROBERTSON. Then the program was very liberal.

Mr. FENDERSON. I would say so; yes, sir.

Senator ROBERTSON. That brings us then so far as you and I are concerned to the question of how shall we allocate it.

Mr. FENDERSON. Yes.

Senator ROBERTSON. It appears that the majority of the consumption is going to be neutral spirits. If the Government favored neutral spirits, would that be neutral?

Mr. FENDERSON. Well, Senator, there has been a lot of talk here and for the last several weeks about the distillers' interests. We have tried to represent the public interest and the public interest is in getting all of the whisky it wants during this period of grain shortage. That is certain, no matter what Congress does. If Congress does nothing, the distillers are going to use about 10,000,000 bushels a month for the next several months, and you will have too much whisky. If Congress passes an allocation law, regardless of the amount of grain allocated, the public is going to get all of the whisky it wants.

I think the major interest here is the public interest, and I think the important point is if this Congress does not restrict the distillers, they are going to take 10,000,000 bushels out of the grain supply each month for the next several months.

Senator ROBERTSON. I am prepared to agree with you.

Mr. Chairman, I think every member of this subcommittee, and every member of your Subcommittee of Banking and Currency that will handle the legislation will want to do what is fair between the conflicting interests in the industry, and with that in view, I beg leave to offer the suggestion that when you complete your hearings on various plans for allocation, you submit that testimony to the experts of the Alcoholic Tax Unit of the Treasury Department that are supposed to have full information concerning production, distribution and consumption, and to analyze for us the various plans, and then submit its recommendations as the one that appears to be the fairest.

Senator FLANDERS. I am wondering, Senator Robertson, whether that particular branch which is in the Treasury Department has concerned itself with the particular question you are raising. They are a source of statistics, but do you think they can answer those questions?

Senator ROBERTSON. They have not concerned themselves primarily with it because they are interested in the revenue angle. I think

they are prepared to make analysis of it, and I would not necessarily limit that service to that agency, but they are the ones that deal with it. They ought to know something about it, and they ought to be concerned with the over-all program of how unlimited use of grain will affect the economic picture with reference to food.

I think the Department of Agriculture, or some other agencies are interested, but they have already proposed a plan and therefore they might not be regarded as an impartial witness.

Senator FLANDERS. We can get further information from the Alcohol Tax Administration.

Mr. FENDERSON. Although Senator Robertson is obviously a whisky and fusel oil expert, I would like to defend the industry on this fusel oil business. I think the Senator would be interested in knowing that fusel oil is produced in the fermentation process but most distillers remove a large part of it in the distillation process, before it is put into the barrel. I do not think he is getting much in the whisky he drinks these days, whether blended or straight whisky.

Senator ROBERTSON. I think it is all poison, but some more poisonous, and that the blended is in that category.

Senator FLANDERS. What category?

Senator ROBERTSON. More poisonous.

Senator FLANDERS. The neutral spirits have had a double distillation, which I would suppose would leave it more free of other substances than the original whisky.

Senator ROBERTSON. That is very debatable. I do not think distillation takes the fusel oil out.

Senator FLANDERS. What is the boiling point of fusel oil?

Mr. FENDERSON. I do not know, but this I know: There is less fusel oil in neutral spirits than in whisky. There is less in the bottle of blended whisky than there is straight whisky unless the fusel oil has been taken out by the straight-whisky manufacturer before it went into the bottle.

Senator ROBERTSON. If your blended whisky was better than the bonded whisky, it would sell for a higher price, but it does not.

Mr. FENDERSON. We are glad you brought up that point. We take into account the cost of production, as well as the quality of the product, and the cost of production of blended whisky is less than straight, and therefore it sells to the consumer at a lower price.

We think it is just as good a product, and may be a better one.

Senator FLANDERS. Why is that so? What is the added cost of making straight whisky?

Mr. FENDERSON. The aging process.

Senator FLANDERS. You age less and tie up the capital for a lesser period.

Mr. FENDERSON. Yes. The big capital investment is in the aging stock, which is a tremendous financial burden—we have to maintain stocks of 4 to 6 years supply at all times—and that covers the cost of warehouses and barrels and insurance and storage and everything else.

Senator FLANDERS. I got that point.

Senator COOPER. I would like to suggest a definition that Senator Barkley gave upon the floor during the debate. He defined whisky as distilled spirits which had been properly aged in a white-oak barrel, and blended whisky as alcohol in which a little whisky was poured to

make it taste, as he said, using his pronunciation, like the real "artickel."

Senator FLANDERS. Have you any questions, Mr. Herter?

Representative HERTER. No.

Senator FLANDERS. Mr. Hart?

Representative HART. No.

Senator FLANDERS. Senator Buck?

Senator BUCK. No.

Senator SPARKMAN. May I ask a question? Are you Mr. Fenderson?

Mr. FENDERSON. Yes.

Senator SPARKMAN. I believe you gave a statement yesterday, did you not?

Mr. FENDERSON. Yes.

Senator SPARKMAN. But I would like to ask you this question, since Mr. Joyce in his testimony brought it up, and that is the compliance of the procedure recommended by the President, with the requirement laid down in Public Law 395. He stated that there had not been an effort made to arrive at a voluntary agreement since Public Law 395 became law, and he had some other criticisms toward the procedure that has been recommended.

I wonder if you care to comment on that.

Mr. FENDERSON. I suppose it is true that the Department of Agriculture did not seek after Public Law 395 was enacted, to get a voluntary agreement out of the industry, but I do not think you can criticize the Department of Agriculture for not trying to get water out of a dry well. They found out it was dry, in a series of long and very strenuous meetings from October 12, 1947, until December 23, 1947.

Senator SPARKMAN. Was there a meeting on December 23?

Mr. FENDERSON. There was a meeting in Secretary Anderson's office representing the three factions of the industry on or about December 23.

Senator SPARKMAN. And there was no agreement arrived at at that time?

Mr. FENDERSON. None whatsoever.

Senator SPARKMAN. The bill had already passed both Houses of Congress?

Mr. FENDERSON. That is correct.

Senator SPARKMAN. And was on the President's desk ready for signing?

Mr. FENDERSON. Yes.

Senator SPARKMAN. So the industry was certainly charged with notice of the contents of what later became Public Law 395.

Mr. FENDERSON. I would certainly say that was so. I think 95 percent of the industry was represented at that meeting.

Senator SPARKMAN. And do you as a representative of the industry feel that the procedure recommended by the President is in accordance with the spirit of Public 395?

Mr. FENDERSON. I would say so. I should not think the administrator would be required to discharge a responsibility it is impossible for him to discharge.

Senator SPARKMAN. The law does not require a useless act.

Mr. FENDERSON. That sounds right.

Representative **HERTER**. Might I ask, is it not true that before the holiday was agreed upon, that the industry did as a whole agree to a 50-percent reduction? Was not there an initial agreement?

Mr. FENDERSON. Mr. Herter, Mr. Luckman called one group of the industry together on about October 3, 1947, if that is the time you have reference to. The group he called together was the Distilled Spirits Institute, which claims to represent 65 percent of the industry. I do not know the basis for their statistics. Schenley and ourselves were not invited to that meeting, and as a matter of fact, we were excluded from it. We made an effort to get into the meeting but the doors were locked against us.

Out of that meeting which was a star-chamber session came an announcement by Mr. Luckman that the industry had agreed to a reduction in its use of grain by 50 percent.

What Mr. Luckman did not announce was that it was a reduction of 50 percent from the famous Distilled Spirits Institute base period, which they have been trying to impose on us ever since, so I would not say that was a voluntary agreement.

Representative **HERTER**. From the very outset there was no agreement.

Mr. FENDERSON. No agreement; no, sir.

Mr. Chairman, Mr. Cox reminds me that the President has, since the expiration of Public Law 395, asked this industry to enter into a voluntary agreement, as of last Saturday, and I understand that even so, the industry has not agreed to his proposal, and is already using grain at the rate of at least twice the January level.

Senator **SPARKMAN**. In other words, the light has been kept burning.

Mr. FENDERSON. Correct.

Senator **ROBERTSON**. Yesterday I understand it was being used at the rate of 5,800,000 bushels per month, which would be nearly 70,000,000 bushels for the whole year.

Mr. FENDERSON. That is very misleading. First of all, it is based on what may be incomplete reports for the first day's operations. The President, as I just said, did call on the industry publicly to hold its use of grain to the January level, the restricted level, until Congress could act on this matter, and express the intent of Congress.

Some companies, I know, are holding down their production to that rate. Others, apparently are running as much as they possibly can. We are not in that category. However, we hope that Congress will make up its minds soon. We are losing competitive position every day.

In view of the fact that those figures are probably incomplete, and for the first day, and do not include the maximum production by a number of companies, it is our conclusion that the industry will shortly be using grain at the rate of 10,000,000 bushels a month—and will continue to do so until something happens.

Senator **ROBERTSON**. My feeling is that a majority, I do not know how big a majority, but a majority of the industry takes the position that you do, there should be restrictions, and they are willing for restrictions to be either imposed or voluntarily adopted, but evidently it cannot be voluntary, and that the real issue then is, impose them in a way that will be fair.

Mr. FENDERSON. I would agree with you to this extent: If you could get the eighty-odd companies in this industry in this room, one at a time, without the press being present, they would each tell you that they think it is in the best interests of this industry not to run in the face of the public interest—that we should not use too much grain over the coming months, but you will never get them to say it in public, because they are afraid of the leadership of this industry, which has set its mind against that course.

Senator ROBERTSON. And then it has got its future to consider, and with nearly 500,000,000 gallons already in bonded warehouses, and with the prospect that happy days may not be here forever, they have to figure what the competitive situation should be in the event of price readjustments which are inevitably coming.

Mr. FENDERSON. Yes, sir.

Senator BUCK. Who are the people that are opposed to voluntary agreement?

Mr. FENDERSON. I do not think anybody in the industry can agree to a voluntary agreement, because the points of view and the relative positions competitively, and from the standpoint of their basic economic philosophies, are so far apart. Certain companies in this industry, by getting a headstart, by having Canadian affiliates, or by control of the aged whisky stocks, have a throttle hold on this industry. They would like to keep it.

Senator BUCK. They are the ones you term the head of the industry.

Mr. FENDERSON. Yes; they are the leaders.

Senator BUCK. They are the ones you refer to.

Mr. FENDERSON. Yes.

Senator COOPER. I want to ask two questions on capacity. Again I say what I said yesterday, and I agree with Senator Robertson, so far as I am concerned, I favor allocation, but I think as he has said, the problem is a fair allocation.

You have argued for capacity. I want to ask this: At your plant, you have a certain capacity to distill X bushels of grain, and that means not only corn, but other products, to produce alcohol. You produced whisky, neutral spirits and industrial alcohol with that capacity, did you not?

Mr. FENDERSON. That is correct.

Senator COOPER. And when the order was made on the 30th day of December by Mr. Anderson, in computing this formula, the part of it based upon capacity, you were given a percentage based upon your total capacity to produce not only spirits which went into whisky, but also went into industrial alcohol.

Mr. FENDERSON. Senator, our capacity is 28 percent of the industry's total. Under the system in effect in January, we got only 14 percent of the industry's quota. Therefore, 50 percent of our capacity has already been neutralized by Government action. We have been denied the use of it.

Senator COOPER. My question now, was that percentage based upon your total capacity to produce not only spirits for whisky or was it based upon your capacity to produce industrial alcohol.

Mr. FENDERSON. I do not understand the question, because there is no difference in those capacities. They are completely interchangeable.

Senator COOPER. I cannot see how you can misunderstand the question. You know that your plant has a capacity to use a certain amount of grain, do you not?

Mr. FENDERSON. I know that very well; yes, sir.

Senator COOPER. And you use that amount of grain not only to make distilled spirits, neutral spirits, but you use it also to make industrial alcohol.

Mr. FENDERSON. But in no way is our plant different from any other plant in the country.

Senator COOPER. I am not arguing that.

Mr. FENDERSON. You have asked me a lot of questions. Let me answer them.

Senator COOPER. Go right ahead, but can you answer that question?

Mr. FENDERSON. I am going to answer it for you. There is no difference between an industrial alcohol plant and a distillery. They can each produce industrial alcohol, neutral spirits and whisky. Every distiller in this country has the option that we have to use our facilities in any way we please, to produce industrial alcohol, neutral spirits, or whisky. If the other companies have not, in their business judgment, availed themselves of that opportunity, that should be no reflection on us for having the good sense to do it.

Senator COOPER. But I am not arguing that point that they could do it. I am asking you if you did produce as a part of your capacity industrial alcohol.

Mr. FENDERSON. That is correct, in the past, that we have, and every time in the past and at the present time, we have the option to use our entire capacity for industrial alcohol or for neutral spirits or for whisky, and we think that is an option that should be preserved by Congress and not denied to us.

Senator COOPER. After the order went into effect, did you in any way lower your production of industrial alcohol?

Mr. FENDERSON. Yes, sir; very substantially. You are talking now about the period from October 25 onward?

Senator COOPER. Yes.

Mr. FENDERSON. Yes, sir. There is a very unfortunate situation in this country. The price of grain as everybody here knows has gone up tremendously. Molasses has almost disappeared from view, very little of it is left, and that is going up in price. Those are the two principal sources of industrial alcohol in this country. Industrial alcohol is the second most universal solvent. It comes right after water. It is a vital chemical in American industry, and yet the American business economy is being starved for lack of it today, because of the high prices of grain and molasses. In the period to which you have reference we did not make a single drop of industrial alcohol from grain because we could not afford to, and our customers could not afford to buy it.

Senator COOPER. You did use more grain, though, during that period in the production of distilled spirits, neutral spirits, than you did prior to that time.

Mr. FENDERSON. Yes, sir, that is right; in the period from October 1 to 25.

Senator COOPER. In other words, you took your grain that you had been using in the production of industrial alcohol and shifted it over.

Mr. FENDERSON. That is not true. I told you we have not been making industrial alcohol from grain, because the customers cannot afford to buy it. We had an industrial plant, and we chose to make neutral spirits in it, which is the American free-enterprise system.

Senator COOPER. I notice in the President's proposal, he suggests that not only neutral spirits be placed under control, but that ethyl alcohol be placed under the control, also.

Mr. FENDERSON. We advocate that.

Senator COOPER. In the event that that should be adopted, would you then propose that also in figuring your allocation for industrial alcohol that you should use the entire plant capacity?

Mr. FENDERSON. I would.

Senator COOPER. So you would get the benefit of the plant-capacity figures for the manufacture of industrial alcohol and get the benefit of the total plant capacity for the manufacture of neutral and otherwise.

Mr. FENDERSON. Our entire capacity?

Senator COOPER. You would use that for two purposes.

Mr. FENDERSON. Under an allocation system, when plants are required to run at less than their capacity, they are free to use their excess capacity in any way they like. We would welcome the other distillers into the industrial-alcohol business, if they have the courage to compete, just as we would like to be welcomed in the whisky business where we have the courage to compete with them.

Senator COOPER. You would claim total plant capacity for two purposes.

Mr. FENDERSON. There is no such thing as double capacity, Senator, if that is what you are trying to bring out.

The capacity of these plants is interchangeable. At certain times in our past, we have used all of it for beverage purposes; at other times we have used all of it for industrial purposes. At the present time, unless Congress dictates otherwise, we choose to use all of it for neutral spirits.

Every plant has the same right. There is no such thing as double capacity.

Dr. BURNS. I think you have in mind that capacity might be counted twice. Capacity that is used for industrial purposes currently might be used in the computation of an allocation of grain for beverage purposes.

Senator COOPER. He says that it has. He states that it has.

Dr. BURNS. He says it is possible to use the capacity for both purposes. I should say if I were asked how to use the capacity for the purposes of figuring out an allocation, for any given month or any given period of time, that only that part of the capacity currently not being used for industrial alcohol purposes be counted in the estimate for beverage purposes. So, therefore, the same capacity would not be used in any estimate for both purposes.

Senator COOPER. That is my question.

Senator FLANDERS. Are there any further questions of the witness?

Senator SPARKMAN. I have been running down this proposed allocation list, and according to my calculation, the highest allocation would be to National Distillers, 208,000 bushels. The next would be to Publicker, 196,000. The next to Hiram Walker, 168,000. Next to Continental, 157,000.

You mentioned that some of the biggest companies had affiliates in Canada. Does your company have a Canadian affiliate?

Mr. FENDERSON. No, sir.

Senator SPARKMAN. Is this one plant in Pennsylvania your whole plant?

Mr. FENDERSON. We have four plants in Pennsylvania which are grain distilleries, grain plants, and I must correct your figures there. Our total quota, including all four of our plants, would be 360,000 bushels, which is slightly higher than Seagrams' total or Schenley's total.

Senator SPARKMAN. I am taking this appendix A and reading from it for the figure for Publicker Industries, Inc.

Mr. FENDERSON. We have one plant operated in the name of Publicker, two in the name of Continental, and one in the name of Kinsey.

Senator SPARKMAN. I read off Continental; that is yours.

Mr. FENDERSON. Yes.

Senator SPARKMAN. What are the companies that have Canadian affiliates?

Mr. FENDERSON. Senator, each one of the big-four companies has Canadian distilleries.

Senator SPARKMAN. Give me the names of what you call the big four companies.

Mr. FENDERSON. Seagram, Schenley, National, and Hiram Walker. Of those four companies, two of them are basically Canadian companies which have domesticated themselves in this country since repeal.

Senator SPARKMAN. Which are those two?

Mr. FENDERSON. Seagram and Hiram Walker.

My understanding is that, of the 15 distilleries which operated in Canada last year, nine are run by these four companies. Those nine, according to the best information I have been able to get, represent perhaps 90 percent of the distilling capacity of all the Canadian distilleries—so that this talk about the Canadian distilleries being allowed to run all out, while we are being restricted here, is not fair. The people who are complaining about the restrictions here are doing the running there.

Senator SPARKMAN. I have been interested in reading, as I am sure a great many people throughout the country have been interested in reading, these full page ads signed by Schenley Distillers Corp. I have heard a good bit of comment on them, most of which was unfavorable, on the ground that it was a poor public relations job.

Does Schenley operate distilleries in Canada?

Mr. FENDERSON. Yes, sir, Schenley has one distillery in Canada.

Senator SPARKMAN. And yet in their ads they are complaining about our sending grain to Canada to be used in distilleries there.

Mr. FENDERSON. Senator, it is my understanding that the grain use complained of by Schenley was principally by these American distillers of which Schenley is one. I cannot tell you all of the facts, but the men are here today who can.

Senator SPARKMAN. I am not asking you, but since you brought that in, I just wanted to bring out that little information for my own satisfaction.

Mr. FENDERSON. My information is that Hiram Walker and Seagram are the companies, principally, which have been buying Amer-

ican grain and shipping it to Canada. We consider that definitely unfair. They were shut down here. We were shut down here, and restricted here, but they had the alternative of buying our grain and shipping it to Canada and using it up there. It seems to us to be an evasion of the American restriction system by the American distillers who have plants in Canada.

Senator SPARKMAN. Well, in consideration of any allocation in this country, do you think we should take into consideration their use of grains shipped into Canada for distillery purposes?

Mr. FENDERSON. I certainly do. Anything else would be unfair to all of the 100 percent American distillers.

Senator FLANDERS. I think Senator Cooper perhaps knows as much about our export allocations as anyone here.

Is there any statutory device which will permit the control of grain allocations for distilling in Canada?

Senator COOPER. Yes, sir. I think under the law which was extended in these anti-inflation bills, the President today has the full power to control the export of any commodity. I understand that in respect to food products, it has been delegated to the Secretary of Agriculture.

Senator FLANDERS. So that our policy in that respect is one of policy decision, rather than statutory limitation.

Senator COOPER. That is right. There is no limitation placed upon the power of the President.

Senator SPARKMAN. In view of the testimony of Mr. Brannan yesterday, is there any agreement with the Canadian Government, because two or three times, if you will recall, he referred to the fact that we could not control exports of grain to Canada.

Senator COOPER. He referred to that in his testimony, yes. I would be in the same position that he was in. He said that he knew of no agreement, and he would not be in a position to know of any.

Senator SPARKMAN. Two or three times he did state that we could not.

Senator COOPER. In hearings conducted in November and December, which I heard, upon export controls, and that question was raised I believe that Mr. Harriman and perhaps Mr. Anderson testified that there was a normal trade between Canada and the United States, and that they considered it the best policy not to control exports to Canada.

Senator FLANDERS. Can you conceive, Senator Cooper, of any informal agreement made at Hyde Park or elsewhere which would have any legal and binding force in this particular situation?

Senator COOPER. I would not think, I do not think it would have any legal force at all.

As you say it is purely a policy matter.

Mr. FENDERSON. I think there is a perfectly simple way to take care of this Canadian problem, which has been magnified in the newspapers, and that is—if Congress chooses to allocate grain to the distillers—then the Secretary of Agriculture might well take into account the use of grain in Canadian distilleries by American distillers in computing their quotas here. That would seem to be the only fair thing to do.

Senator ROBERTSON. With all due deference, they have \$2.50 extra import duty to pay when they bring the liquor back, in addition to the \$9-a-gallon excise tax.

Mr. FENDERSON. That has been reduced to \$1.50. It is the latest of a long series of preferential treatment accorded to the Canadian distillers.

Senator ROBERTSON. I thought it was \$5 and reduced to \$2.50.

Mr. FENDERSON. It was \$5 at the time of repeal, but it was reduced quickly thereafter to \$2.50 and now by executive action it has been reduced to \$1.50. I think all of the 100 percent American distillers protest that.

In addition, they have preferential labeling regulations under which they are not obliged to tell the American public what is in their bottle, as we are.

Senator FLANDERS. Any further questions?

Senator BUCK. I would like to know the gentleman's position with this company.

Mr. FENDERSON. I am assistant to the president.

Senator BUCK. I thought perhaps you were the president.

Mr. FENDERSON. Thank you very much.

Senator COOPER. I noticed this morning there was an editorial in the Washington Post that suggested that this matter of exports of grains to Canada, which later found its way into the manufacture of whisky, should be considered by the Department of Agriculture, and that there should be an agreement, some agreement which would restrict the use of grain exported into Canada to prevent its use for that purpose.

Senator FLANDERS. If there are no further questions, the witness is excused, and thank you.

Mr. FENDERSON. Thank you.

Senator FLANDERS. I will call Congressman Morton next. What is your district?

STATEMENT OF HON. T. B. MORTON, A REPRESENTATIVE IN CONGRESS FROM THE THIRD DISTRICT OF KENTUCKY

Representative MORTON. Mr. Chairman, I am Thruston B. Morton, Member of Congress from the Third District of Kentucky.

Senator FLANDERS. You may proceed.

Representative MORTON. I am interested in this problem and have asked to testify because of the concentration of bourbon-distilling capacity in my district, which includes the city of Louisville.

I certainly cannot qualify as an expert on the question of the national and world grain supply. Evidence indicates that there is an acute, if not critical, shortage in both bread grains and coarse grains. If the evidence before your committee indicates that such a shortage actually exists, it seems to me that the administration and the Congress should approach the problem in an over-all, realistic manner.

When in the solution of this problem we direct our efforts solely toward the beverage-distilling industry, we are merely kidding ourselves and the people. As you know, the beverage-distilling industry over a period of years has accounted for eight-tenths of 1 percent of the annual grain production of this country. It is unfortunate that in approaching any problem dealing with the distilling industry, emotional factors enter the picture. The wet-and-dry issue, as we all know, is far from dead in this country. I have heard very little about what is being done to curtail the production of nail polish,

hair tonic, shaving lotion, antifreeze mixtures, and other similar products made from ethyl alcohol. Certainly no one can justify a bottle of whisky instead of a loaf of bread, or a bottle of whisky instead of a quart of milk, but that is not the problem here, and we should avoid such false conclusions in our thinking on this subject.

Yesterday morning in the Washington Post, there appeared an article on the question of the milk shortage in this country. I quote from the article:

The situation is such that a Government milk specialist remarked yesterday, "The country has to choose between whisky and milk, as well as between whisky and bread."

It seems to me significant that this should appear on the day that your distinguished committee commenced its hearings on this subject. It also seems to me that this unidentified specialist in the Department of Agriculture is not too well informed in the field of animal nutrition. We must bear in mind that the distillers are not consumers of grain, but processors of grain. In the distilling process, spirits are produced and distillers' feeds are produced. These feeds are important in our over-all agricultural economy and in our over-all food production. What we are concerned with is food as an end product. Corn is an intermediate product used primarily to produce food for human consumption. It is the job of the administration and the Congress to produce as much food as possible from the available corn supply. Protein concentrates are necessary to accomplish that purpose, and the distilling industry is an important provider of those concentrates.

Yesterday a letter from Mr. F. B. Morrison, a distinguished authority on the subject of animal nutrition, was read into the record. I would like to quote from page 624 of Mr. Morrison's book, *Feeds and Feeding*. I quote from the twentieth edition, published in 1947.

If care is taken to feed only enough protein supplement to balance the ration according to these recommendations, each 100 pounds of such supplement as linseed meal, cottonseed meal, or soybean-oil meal will be equal in value to 250 to 300 pounds of grain or grain equivalent.

I further quote from page 533 of this same book:

Distiller's corn dried grains are a popular protein supplement for dairy cows and are a favored ingredient in concentrate mixtures. * * * they rank above corn gluten feed in content of digestible protein.

In this same book Mr. Morrison rates corn distillers' grains in digestible nutrients above 85 percent; soybean-oil meal, 80.5 percent; corn cotton meal, 81.8 percent; cottonseed meal, 73.6 percent; brewer's grains, 65.3 percent; linseed-oil meal, 78.2 percent.

Dr. O. R. Sweeney, of Iowa State College, appeared before a subcommittee of the Committee on Agriculture and Forestry of the United States Senate on June 24, 1942, and I quote from his statement:

It has been shown that if you take 10 bushels of corn and ferment 2 bushels of it to alcohol and take the residue of stock food and feed it back with the other eight bushels of corn, you will get more gain on your hogs or steers or sheep than if you had fed the 10 bushels of corn to begin with. You see, corn is an awfully good feed, but it is not a balanced ration, and if you just feed corn to your stock, you don't get the right results.

Dr. Sweeney, in his testimony which can be found at page 798 of the hearings, described an experiment in which high-grade steers were fed their regular grain ration and a protein supplement from linseed-oil meal, an excellent feed. Another group of steers were fed the same

ration with distiller's grains substituted for the linseed-oil meal. The steers fed on the distiller's grains brought a higher price both in Chicago and at Ames, Iowa.

On commenting on this experiment, Dr. Sweeney had this to say:

We are not, as someone said, robbing anyone of their lard and beef when we attempt to make alcohol from the corn. The estimate was that we would get \$38.67 margin for the steer over the feed cost, using oil meal. If we allow the same price for the rest of the feed and using the distiller's grains, it would be \$46.59. So the difference between \$38.67 and \$46.59 was the gain by feeding high vitamin containing distiller's grain.

In an experiment conducted in Kentucky, it was found that dark grains, when used to supplement a ration of corn, alfalfa, hay and wheat straw produced an increase in gains and saved roughage. For example, when fed to steers in dry lot, 10 bushels of corn plus roughage, produced 50.2 pounds of gain. However, 8 bushels of corn plus the dark grains derived from 2 bushels produced 54.7 pounds of gain and saved about 50 pounds of roughage. In addition 9½ proof gallons of alcohol were produced by the distillery processing the 2 bushels of corn.

Much has been said about the supply of protein concentrates. The Department of Agriculture assures us that they are in abundance. During the early part of the distillery holiday, the price of soybean meal was about \$78 per ton f. o. b., Decatur. At the end of the holiday, the price was about \$95 per ton. This, in spite of the fact that we had just harvested the new soybean crop. Every dairyman in the country felt this price rise in his feed bill.

My brother and I own and operate a dairy farm near Louisville. The distillery holiday in no way increased our milk check, but it did increase our feed bill. There are many cattle feeders all over Kentucky who were forced to market unfinished beef because of the distilling holiday. I do not think that contributed to the over-all food supply of this country.

Along with other members of the Kentucky delegation in Congress I have had hundreds of letters from employees of distilleries and the allied industries. These American men and women are willing to make a sacrifice to help us meet our humanitarian obligations to the world. They do not see why they should be the only ones called on to make such a sacrifice.

The cooperage industry which is a large employer of manual labor is seriously upset by any unreasonable restriction in distilling operations. There are counties in my State in which a distillery represents the only industrial pay roll, and the farmers of those counties are dependent on the spent stillage for their feeding operations.

The distillers in my district are willing to do more than their share in curtailing operations. Their quarrel with the Secretary of Agriculture was not so much over the amount of grain to be allowed per month for the industry, but it was with the method of allocation for the distribution of grain within the industry. The formula used by the Secretary worked a serious discrimination against the small independent distiller.

The Stitzel-Weller distillery is located in my district and offers a good example of the inequities resulting from the Secretary's formula. Beginning with the fiscal year ending June 30, 1936, the Na-

tion's distilleries have operated under complete freedom for eight and a fraction years. During the remainder of the time, they have either been completely shut down as to beverage distilling or operating under some form of allocation administered by the Department of Agriculture or other Government agencies.

The Stitzel-Weller distillery, when under free enterprise, used .81 percent of all the grain used for beverage-distilling purposes. Under allocation, that company only received .47 percent of the grain used for beverage-distilling purposes.

Before the war, Kentucky used 33 percent of all grain for beverage-distilling purposes. During the rationing period from September 1945 through December 1946 Kentucky in 1 month was allowed only 16 percent of all the grain used for beverage-distilling purposes, while the State of Pennsylvania, with a prewar use of 7 percent, was allowed as high as 36 percent in 1 month.

Because all formulas used by the Secretary of Agriculture have given some serious expression to capacity, we in Kentucky have suffered unduly. As a result, many of the small independent distillers of Kentucky are forced to sell out. The administration of this control in the past has worked toward monopoly and against small business.

The Stitzel-Weller distillery is typical of many throughout my State. They have no serious complaint with the amount of grain used for beverage-distilling purposes; what they object to is that their share of that grain, whatever the over-all amount may be, has been reduced by approximately 40 percent because of the artificial formulas used by the Secretary of Agriculture in the distribution of such grain.

The big increase in Pennsylvania came about because of one large plant whose molasses-producing capacity was converted to grain alcohol during the war. This plant was in the beverage business in a small way before the war. During the years 1939, 1940, and 1941, it accounted for 2.8 percent of the grain used for beverage-distilling purposes. During the control periods, it received as much as 28 percent of all the grain used for beverage-distilling purposes. I do not have the exact figures on this plant for the free-enterprise period of 1947, but I do have the figure for the State of Pennsylvania as a whole, and this plant represents most of the Pennsylvania production.

Controls were taken off of the industry on December 1, 1946. Prior to that time, Pennsylvania was getting about 25 percent of the grain, but in May 1947 Pennsylvania production was down to 21½ percent after 5 months of free enterprise. In June it was under 2 percent and in July it was under 3 percent. Now in September, we got a rumor that there might be a distillery holiday, and we find that Pennsylvania used 12.4 percent of all the grain in September. On October 5 it was definitely known that the distillers were going to shut down for 60 days beginning October 25. In the month of October, Pennsylvania used 29 percent of all grain used.

This one plant used about 2,000,000 bushels of grain in the month of October. Most of this was used in the production of neutral spirits. The price of neutral spirits was about 65 cents a gallon just before the holiday. During the holiday this company doubled its price on neutral spirits and obviously made a tremendous profit. I am happy to say that the distillers of my State, even though they knew the holi-

day was coming, used less grain in the manufacture of whisky during the month of October than they did during the month of September.

Now, this same company likes control and allocation over industry. They cannot sell their product otherwise. Under the formula which was worked out by the Secretary of Agriculture for the month of January, this one company in 4 plants received 45 percent of what 62 plants in Kentucky received. It is easy to understand why the little fellows in my State are alarmed about what will happen from here on.

Therefore, Mr. Chairman, if controls and allocations are found to be necessary, I make two suggestions: First, that the area be broadened and not confined merely to grain used in beverage distilling. This is just plain window dressing and not a realistic approach to the problem. Second, I suggest that the Secretary of Agriculture be required to follow a formula which gives full expression to a historic basis of allocation. If we take the 7 months beginning December 1, 1946—the first 7 months of decontrol—it seems to me that we have a fair and equitable basis for allocation. During this period the grain supply was adequate. The distilleries were operating under a free-enterprise system and were not threatened with allocations or controls. Every distiller used that amount of grain which he thought represented his competitive share of the products of the industry. All past allocation programs have worked to develop monopoly in this industry which is already in the hands of too few.

Before concluding, Mr. Chairman, I should like to ask permission to insert in the record a statement of the Honorable H. Clyde Reeves, commissioner of revenue for the Commonwealth of Kentucky. This statement very ably explains the impact on the finances of Kentucky as a result of serious curtailment of distilling operations.

I thank you for the opportunity of appearing before the committee, and will be happy to answer any questions in connection with my testimony.

Senator FLANDERS. Yes; you may make that a part of the record. (The statement referred to is as follows:)

STATEMENT OF H. CLYDE REEVES, COMMISSIONER OF REVENUE FOR THE COMMONWEALTH OF KENTUCKY

I am H. Clyde Reeves, of Frankfort, Ky., commissioner of revenue for the Commonwealth of Kentucky. I make this statement in my official capacity as commissioner of revenue and at the special request that I do so of Hon. Earle C. Clements, Governor of the Commonwealth of Kentucky.

Last week the General Assembly of Kentucky enacted, at the request of the Governor, the biennial budget bill for the coming fiscal years beginning July 1 of this year and ending June 30, 1950.

The budget is the largest in the history of Kentucky. It provides for the appropriation and expenditure of \$111,000,000. This is \$22,000,000 more than the present budget under which we will operate until June 30 of this year.

The increased appropriations under the budget just adopted will go principally to aid of our public school and welfare systems, which are sorely in need of additional funds in order to maintain the essential services of educating our children and providing necessities of life for the aged, the indigent, and the helpless citizens of our Commonwealth.

Any proposal, therefore, of whatever nature and from whatever source it may come, even though that source be the Congress of the United States, is bound to give us concern if it threatens seriously to impair the current revenues of our Commonwealth.

The bill (S. 1842) now under consideration by your committee is not only a serious threat to Kentucky's revenue, but if its provisions are enacted into

law every one of the 62 distilling plants of our Commonwealth could be shut down immediately for an indefinite period of time, thereby causing complete embarrassment of our carefully considered fiscal plans and distress to thousands of our citizens whose lives and well-being are dependent upon the adequate financing of the essential public services in our Commonwealth.

Taxes from the manufacture and sale of alcoholic beverages, and particularly taxes imposed on the manufacture of distilled spirits for beverage purposes, have constituted a principal source of Kentucky's general-fund revenues ever since 1936. Taxes from these sources currently account for more than 28 percent of all of our general-fund revenues.

Kentucky felt reasonably justified in relying on these sources of revenue when the twenty-first amendment to the Federal Constitution was adopted, because one purpose of this amendment, as shown by the debates in Congress and subsequent decisions by the Supreme Court, was to return to the several States the right to deal as they saw fit with the subject of intoxicating liquors.

If it be true, however, that, separate and apart from the question of the right of the Federal Government to regulate the manufacture and sale of intoxicating liquors, the Congress of the United States should determine that a saving of grain is vital at this time to the general welfare of all of the people of the United States, the Commonwealth of Kentucky will do its part at whatever cost in making any genuine grain-saving program a success. Such a program, however, should be sufficiently broad in scope (1) to save sizable quantities of grain; (2) it should be directed against all nonessential uses of grain, of which there are many besides beverage distilling; and (3) grain thus saved for export should be denied to any country which has not put into effect a similar grain-saving program.

I would now like to point out how the revenues of Kentucky will be affected if distilling should be discontinued or reduced to a point where economical production is no longer possible in our 62 distilling plants.

Except for the two war years—1943, when no beverage spirits were produced in Kentucky, and 1944, which, with 1 month's production, accounted for 5,611,244 proof gallons—production of beverage spirits has averaged for the 10 years 1935-47 (1943 and 1944 eliminated) 62,500,000 gallons per year.

For every proof gallon of beverage spirits produced, the Commonwealth collects a manufacturer's license tax, commonly known as a production tax, of 5 cents. Ours is the only State which has such a tax.

On the average annual production of 62,000,000 gallons, the revenue from this source alone is \$3,100,000 per year.

All during the war years—1942 to 1945—Kentucky distilling plants produced alcohol for war purposes. A greater portion of the time they were devoted exclusively to this purpose.

Besides being indispensable to the war effort, the alcohol produced in these plants for war purposes was expressly exempted from the 5-cent production tax by a special act of the Kentucky General Assembly at its regular session in 1942.

I happened to be commissioner of revenue at that time, and, at the direction of the then Governor, Hon. Keen Johnson, acting on the urgent request of the Chairman of the War Production Board, I caused to be prepared and personally worked for and secured the passage of the act exempting Government alcohol from the payment of this. If Kentucky had collected the tax, which we were advised we had a right to do, the Commonwealth would have received more than \$12,000,000 in revenue, because production was at a capacity rate for more than 2 years. I do not suggest that anyone in Kentucky would have wanted to collect this tax from the Federal Government, but our Commonwealth's revenues were nevertheless adversely affected, in contrast to situations in most other States where the operation of war plants had the consistent opposite effect. I point this out simply to show that our sacrifices of revenue have already been considerable.

In addition to the further loss of revenue from the 5-cent production tax, our Commonwealth would also now stand to lose thousands of dollars from other sources as result of any curtailment or shut-down of our distilling plants as is now proposed under this bill.

The State, as well as each county, city, and school district in which distilling warehouses are located, collects a property tax on all spirits stored in these warehouses. If spirits are withdrawn, as they will be, from the warehouses, and withdrawals are greater than replacements, it follows that there would be a shrinkage in the quantity of property on which the taxes are levied and a consequent loss of revenue.

Again, curtailment of production will result in lay-offs of distillery employees. With the income of these people cut off or greatly reduced, Kentucky's income taxes from this source would also be adversely affected.

In addition to the personal income tax, the Commonwealth levies a corporate income tax, and the revenues from this source will be materially reduced from lost production and idle-plant expenses of the distilling companies.

In conclusion, I repeat, in my official capacity as commissioner of revenue and as the spokesman for the Governor of Kentucky, our Commonwealth, the first State to be admitted into the Union after the Federal Constitution was ratified, yields to no State in its willingness to make sacrifices for the general welfare, and if grain saving is necessary, we will cooperate in any program sufficiently broad of base which (1) applies to all nonessential uses of grain, and (2) which requires a corresponding sacrifice on the part of the countries to which grain should be exported.

Senator ROBERTSON. I do not want to ask any questions, but I do want to offer for the record at this time the information given me by the Department of Agriculture upon the percentage of feed resulting from the distilling of grain. It seems that there are two angles to that problem. One is the number of calories that can be procured by direct use of cereals for human consumption, and the consumption of meat produced with the same grain.

The ratio runs from 5 to 15 times in favor of human consumption.

The second observation deals not with the nutritive value of what the distillers recover and sell to dairies and for livestock feed, that is unquestionably high, but it is my recollection that the Department of Agriculture advise me, and I have the exact figures in my office—I am sorry I did not bring them; I did not realize that issue would come up—but it is my recollection that the Department of Agriculture said that, under the most efficient recovery processes, the distiller could save only 25 to 35 percent of the nutritive value of that grain for feeding purposes in its distilling operation, and that the average weight was around 16 pounds from a 56-pound bushel.

In other words, you get more value if you feed the grain directly to the steer or the hog than if you use the concentrate, the percentage recovered as a concentrate after the distilling operation.

Representative MORRIS. If you feed it straight; yes. We took our grain and converted it, there would be no argument at all. There is more calorie in the grain, of course, because the starch is where the energy is. Using it as a protein concentrate, however, every State agricultural college in the Nation admits that we are deficient in protein concentrates, and the Department of Agriculture said that this year we were deficient 5,000,000 tons.

Senator ROBERTSON. I do not question that, and I realize that all of this at one time just went down the sewer pipe. Now it is recovered, and that is progress.

Senator FLANDERS. The gist of the thing, as I understand it, we have had testimony to this effect, that if you take 10 bushels of corn, we will say, and feed it straight, you get a certain result in adding pounds to the animal. If you take of that 10 bushels, feed 8 bushels to the animal and turn 2 bushels over to the distiller, and then feed the concentrates that result, feed the distiller's residue back to the animal, that you get a slightly better result than if you fed the 10 bushels straight.

Senator ROBERTSON. The Department of Agriculture said that is absurd, that you cannot take all except 16 pounds out of a bushel of grain and say that 16 percent is equal to 100 percent. It is absurd on the face of it.

Senator FLANDERS. That is on the calorie basis?

Senator ROBERTSON. They figured it on every basis.

Senator FLANDERS. I am not upholding one basis over the other, but referring to the testimony which indicates that you are wasting carbohydrates if you feed the grain straight.

Senator ROBERTSON. That is the issue that I am combating with the testimony of the Department of Agriculture. They say it is incorrect.

Representative MORTON. The experiment was conducted within 5 miles of my farm on another farm, and I know the farmers, and also the Department of Agriculture came here 3 years ago and brought witnesses to prove that there was no loss. That is why Dr. Sweeney testified before a subcommittee of this body.

Senator ROBERTSON. I think this committee should get the official report from the Department of Agriculture, since there is a difference of opinion. They have experts on nutritive values, and they are interested parties. I got the figures from them. I thought that they were reliable.

Representative BENDER. Does the quality of the ensilage from silos have anything to do with this question?

Senator FLANDERS. Are you referring to the strong alcoholic smell that we get from the liquor in the bottom of the silos under certain conditions?

Representative BENDER. I wondered if that made the cows stagger or improved the quality of the milk, or just what it had to do with the price of eggs. I do not know.

It seems to me we are going far afield here.

Senator FLANDERS. There is a technical question which I think, as you suggest, Senator Robertson, we should get not merely from the State agriculture departments and the feed experts but also direct from the Department on this question.

Senator ROBERTSON. If you could fatten steers and hogs better on 25 to 35 percent of the corn than 100 percent, we should put it all in liquor and get the liquor on one hand, then feed on the other.

Representative MORTON. You cannot do that.

Senator FLANDERS. No allegations of that sort have been made.

Representative MORTON. I would like to say, Mr. Chairmah, departing from the field of animal protein, that the distillers, I hold no brief for them, but I do for my outfit down in Kentucky, the small independents, not these big ones they are talking about, they have tried to cooperate. They are right now, most of them, only using 50 percent of the grain that they used in February last year, and they do not know what kind of controls you are going to slap on them, and they are doing that in good faith. All they want is a chance to operate.

Senator ROBERTSON. On an over-all allocation of 2½ million bushels can they not operate?

Representative MORTON. Yes, sir; if it is on a historic basis, they can do it.

Senator ROBERTSON. The President released figures on unemployment that resulted in 2 months of complete shut-down and here is what he said; that the distillers estimated that 50,000 to 100,000 distillery workers would be thrown out of work. The report shows now, the President went on to say, that 965 workers actually were laid off because of that shut-down, and that the United States Employment Service was able to place 551 of these in new jobs. There were only

414 distillery workers out of work. And you are in a complete shutdown.

Representative MORTON. Because the distilleries kept them there washing windows and in maintenance work.

Senator BUCK. I have listened to the testimony this morning. I can better understand now than before I came in why there is not voluntary agreement which has not been reached by the members of the industry. Apparently everything is not sweet and rosy with them.

I am wondering how much politics is involved in this issue which we are discussing. I have before me a statement by David Lawrence, "President Aids Drys." I do not think I will take the time to read it, but I would like to ask your permission to have it inserted in the record at this point, and made a part of the record.

Senator FLANDERS. We will have it in the record.

Senator BUCK. Thank you.

(The clipping from the Chicago Daily News, February 3, 1948, is as follows:)

PRESIDENT AIDS DRYs

(By David Lawrence)

WASHINGTON.—President Truman is evidently playing the game of wet and dry politics of prohibition days and is apparently trying to put the Republicans in a hole by insisting that they pass class legislation curtailing for several months the use of grain in manufacturing distilled spirits.

This is the only plausible explanation for the dispatch to Congress of a special message asking for authority to reduce distillery operation by 23 percent when no other users of grain are to be curtailed and when also it is known that the distillers use an infinitesimal fraction of the total wheat supply.

The politics of the situation is that the drys are anxious to return prohibition under the guise of a national emergency—something that happened in World War I. The wets as such are not yet conscious of the political implications and have not organized against a return to the era of bootlegging.

DISCRIMINATION

The administration will not be able to prove it is not discriminating as between users of grain, but in the President's message is a shrewd attempt to create a special class of users of grain "for the production of ethyl alcohol, including but not limited to, distilled spirits and neutral spirits."

The hearings should disclose just why the administration is so vehement about curtailing the use by distillers when the latter are willing to restrict themselves to 3,500,000 bushels a month instead of the 2,500,000 asked by the Department of Agriculture. Surely on the basis of a 9-month curtailment this difference of 9,000,000 bushels, as against the hundreds of millions of bushels used by other processors of grain, does not appear to be consequential.

Getting votes on the "wet" and "dry" issues in a campaign year appears to be at the bottom of it.

Whether one likes to see prohibition returned is not the issue. Whether the Government shall apply its laws equally and without political caprice is the real issue, especially since the effort to circumvent the twenty-first amendment to the Constitution is plain.

Representative BENDER. I would like to insert in the record a communication I had from the professor of animal husbandry, Ohio State University.

Senator FLANDERS. Does it or does it not favor the idea that ten bushels of corn, of which two have been processed by distillers, are more effective than ten bushels straight?

Representative BENDER. I am afraid he does not cover that issue. He covers everything else but that.

Senator FLANDERS. You may put it in the record if you desire.

(The communication referred to is as follows:)

To Whom It May Concern:

In view of the shortage of cereal grains, particularly corn, in this country and the unprecedented need for high-energy feeds and foods both in this country and abroad, it is my opinion that the use of cereal grains for the manufacture of brewed and distilled beverages should be sharply curtailed and strictly limited. In my opinion this curtailment and limitation should be applied, not only to this country, but to all countries receiving aid under the provisions of the Marshall plan.

Sincerely,

T. S. SUTTON,

Professor of Animal Husbandry and Director, Institute of Nutrition and Food Technology.

DISTILLERS' BYPRODUCT FEES IN RELATION TO THE NATIONAL FOOD AND FEED SUPPLY

1. The nature and properties of distillers' residues compared to the whole grains from which they are derived

The residual matter left after the production of whisky, neutral spirits, or alcohol from grain consist principally of the protein, fats, and fiber of the original grain, plus yeast which is added in the process.

This residual matter dried down by mechanical means to a 5-percent-moisture basis represents approximately 16 pounds, including the yeast, of the original 56-pound bushel of grain. The yeast, which represents from 1 to 2 pounds of the total, is high in quality protein and B-complex vitamin.

In caloric value this residual matter represents approximately 35 percent of the caloric value of the whole grain. However, the caloric value of these distillers' residues consists largely of protein and nonstarch carbohydrate.

2. The feeding value of distillers' residues

Animal and poultry nutrition requires, for efficient utilization of feed materials, definite proportions of carbohydrate matter, protein matter, fat, minerals, and vitamins, depending upon the type of livestock or poultry. For example, in the case of dairy cattle the most efficient feeding ration would include from 16 to 20 percent protein matter, which would result in the most efficient utilization of the feeding material if the remaining ingredients were in the proper proportions.

However, whole grain is deficient in protein from the standpoint of animal and poultry feeding. Corn, for example, contains about 9 percent protein. Therefore, in order to fully utilize the feeding value of whole corn it is desirable to add enough protein matter to bring the protein percentage up to 16-20 percent; and it is also desirable to add other ingredients which are lacking in the whole corn.

Distillers' feeds, inasmuch as they represent principally the protein content of whole grain, have been and are now widely sold as protein adjuncts to be mixed with whole grain and other feeding materials to form better feeds than the whole grains would be alone.

3. Is the production of distillers' residues currently desirable from the standpoint of the over-all food and feed supply?

This year the United States is faced with a serious shortage of cereal food and feed, partly due to the reduced crop in the United States and other parts of the world during the recent crop year, and partly due to an increased drain on the United States to supply deficit food and feed areas.

The world food and feed shortage this year is a shortage of caloric value; and neither carbohydrates nor proteins are in adequate supply. There can be no justification in these circumstances, from the food and feed standpoint, for the conversion of any food and feed materials to nonfood uses; and, specifically, there is no food or feed justification for converting the carbohydrate content of whole grain to beverage spirits in order to secure the protein feed content of the grain. Both the carbohydrate and the protein values of the grain are desperately needed in the human food and animal feed economies.

Furthermore, protein feed represents a very small factor in the feed economy, and "our protein situation is more favorable now than it has been in several years," according to the recent report of Walter C. Berger, president, American Feed Manufacturers Association, Inc. This report from the feed industry is borne

out by the latest report of the United States Department of Agriculture on the Feed Situation, released January 17, 1948, which states as follows:

"The total protein feed supply, including both vegetable and animal protein, is about as large as the large supplies in other recent years, and is near record per animal unit on farms."

According to Department of Agriculture statistics, the total quantity of protein and feed byproducts during the current year ending October 1, 1947, was 18,800,000 tons of which distillers' byproducts feeds represented only 409,000 tons, or approximately 2 percent.

4. Conclusion

In my judgment, distillers' feeds are not sufficiently important in the feed economy this year, in view of our shortage of all cereal foods and feeds, to justify the sacrifice of the carbohydrate in grain (approximately two-thirds of its caloric value) by distilling the grain into beverage spirits, even though the protein content of the grain (approximately one-third of its caloric value) is saved in the form of distillers' residues.

T. S. SUTTON,

*Professor of Animal Husbandry and Director,
Institute of Nutrition and Food Technology.*

Representative HERTER. The question of a formula for allocation seems to be the most controversial of all of the things that have been raised here. You have recommended a 6 months' period.

Representative MORTON. I recommend that we take the first 6 months of decontrol.

Representative BENDER. As the starting period.

Representative MORTON. There was no threat of allocation then. As the historic period, give them the amount of grain that you want. I have no quarrel with allocation.

Representative HERTER. Let me ask you this: The whole period of freedom lasted until October. It was the end of September that the threat of allocation came up.

Representative MORTON. Yes.

Representative HERTER. Would you be willing to take the entire period of freedom?

Representative MORTON. Up to the time of the shut-down, I would much rather.

Representative HERTER. Say up to October 1, before the race began all over again.

Representative MORTON. Even in September you saw some of the big plants anticipating this. In Kentucky because of water conditions and other conditions, many of these small independents shut down during the summer. They are down during the summer. They do their repair work.

Representative HERTER. How would a formula of that kind compare with that being used during the 1 month of allocation?

Representative MORTON. Well, it compares this way: The small independent distiller that I told you about is getting 0.6 percent—using 0.8 percent under a free-enterprise period, which goes back 8 years and probably the same for the 6 months, I do not know, and under the allocation giving only one-third expression of capacity, he only received 0.4 percent, 0.47 of 1 percent.

Representative HERTER. What would you get under your formula?

Representative MORTON. He would get 0.8 percent of the grain allocated. My distillers have no quarrel with the amount of grain. They want to do their part. But they certainly do not see why a huge giant

that has entered this picture as a result of being the world's largest producers of alcohol for war purposes, and suddenly decides that it is going into the beverage industry, should get favored treatment, and do not like him coming before your committee with a holier-than-thou saying his is the communal interest with the smaller distillers of Kentucky. They heard that before.

Representative HART. I would like to ask one question. You stated in your testimony that the Philadelphia company, I suppose you refer to Publisher—

Representative MORTON. I meant their four plants; yes, sir.

Representative HART. Could not compete in the industry except in the presence of controls, did I understand you to say that?

Representative MORTON. They can compete, and they will find their place in the industry, but they do not have this great advantage that allows them to do 25 percent of the business.

Representative HART. What you mean is that under controls they are in a better position.

Representative MORTON. Under that they make neutral spirits, and they are the ones that have them and sell to the rest of the industry.

Senator FLANDERS. You are excused, sir.

Representative MORTON. Thank you.

Senator FLANDERS. Now, Dr. FitzGerald.

**STATEMENT OF DR. DENNIS FITZGERALD, SECRETARY-GENERAL,
INTERNATIONAL EMERGENCY FOOD COMMITTEE, WASHINGTON,
D. C.**

Dr. FITZGERALD. I am secretary-general of the International Emergency Food Committee, 1344 Connecticut Avenue, Washington, D. C.

Senator FLANDERS. You might tell us where you are placed in national and international government; to whom are you responsible?

Dr. FITZGERALD. I am responsible, Mr. Chairman, to the International Emergency Food Committee, which consists of representatives of 11 governments.

Senator FLANDERS. Set up separately by those governments, or under the United Nations, or how?

Dr. FITZGERALD. At the present time we are a Committee of the Council of FAO, and the Council of FAO is one of the specialized agencies of the United Nations.

Senator FLANDERS. Thank you. You may proceed.

Dr. FITZGERALD. I understand, Mr. Chairman, that your committee was interested in any observations that appeared to be pertinent to your consideration of the problem.

Senator FLANDERS. Questions were raised yesterday by Senator Watkins, and I am sorry he is unable to be here, as to the justification for considerable export of grain to Latin America and other countries which are not suffering from the aftermath of the war. That is one question I would like to ask of you.

Dr. FITZGERALD. As a background for that, Senator, I should like, if I may, to refer briefly to a table that I prepared when I found out that you wished to ask me some questions.

(The table is as follows:)

Cereal exports and export availabilities prewar, 1946-47, and 1947-48

[1,000 long tons]

Country	Prewar, 1935-33	1946-47	As of July 12, 1947	1947-48 estimates	
				As of Oct. 27, 1947	As of Feb. 5, 1948
All cereals:					
Argentina.....	10,301	4,255	5,500	5,500	7,000
Australia.....	2,885	1,366	1,650	1,900	2,800
Canada.....	4,707	6,757	8,000	5,650	5,750
United States.....	589	14,903	14,500	13,500	13,750
U. S. S. R.....	1,184	400	2,000	2,000	2,000
Other.....	9,298	797	350	400	700
Total.....	28,964	28,488	32,000	29,090	32,000
Wheat and rye:					
Argentina.....	3,010	1,707	2,000	2,000	2,750
Australia.....	2,804	1,315	1,600	1,900	2,400
Canada.....	4,656	6,214	7,500	5,650	5,700
United States.....	512	10,767	13,000	12,000	12,100
U. S. S. R.....	754	250	1,200	1,200	900
Other.....	3,873	413	200	250	150
Total.....	15,610	20,666	26,600	23,000	24,000
Coarse grains:					
Argentina.....	7,291	2,547	3,500	3,500	4,250
Australia.....	81	51	50	50	400
Canada.....	51	543	500	500	50
United States.....	77	4,136	1,500	1,500	1,650
U. S. S. R.....	450	150	800	800	1,100
Other.....	5,405	395	150	150	550
Total.....	13,354	7,822	6,500	6,000	8,000
European wheat and rye crops (excluding U. S. S. R.).....	61,700	47,900	41,000	40,000	40,300

Dr. FITZGERALD. I have shown on this table, Mr. Chairman, five columns of figures.

Senator SPARKMAN. Before you start, may I ask you this: You have given it in long tons. Is that roughly 40 bushels?

Mr. FITZGERALD. Yes, sir; 37.3 bushels.

I must apologize to this committee. I did not have time to put it back in bushels, and we always do our calculations in round tons.

Senator SPARKMAN. We farmers think in bushels.

Dr. FITZGERALD. I know you do, sir.

The first, the five columns show for the prewar period for 1946 and 1947, the actual cereals exports, and for 1947-48, three estimates that have been developed as the season progressed, and as additional information became available.

It is broken down, as you will see, sir, into all cereals, wheat and rye, and coarse grains.

Both prior to the war and in 1946-47, the export movement of all cereals was roughly 28 to 29 million tons. Of that total prior to the war, slightly over half was wheat and rye, which is primarily food grain, and almost half was coarse grains.

In 1946-47 when there was a very serious shortage of food grains throughout the world, there was a much larger movement of wheat and rye and a smaller movement of coarse grains, and I might add in passing that of the 7.8 million tons of coarse grains that were shipped in 1946-47, somewhere between 5½ and 6 million tons was used for

food, leaving only 1 to 2 million tons of exported grain that was used for livestock feed.

For this current crop year 1947-48, the first estimate we made was on July 12, and at that time our best estimate was availability of 32 million tons, of which 25½ million tons was food grains and 6½ million tons coarse grains.

Due to deterioration in certain crops in the northern hemisphere in the late summer of 1947, by October 27 our best estimates were for only 29,000,000 tons of export availability of which 23,000,000 wheat and rye and 6,000,000 coarse grains.

As of the present time there has been, for reasons I will mention briefly in a moment, an improvement in the position for 1947-48, an improvement about back to what we had estimated last July, around 32,000,000 tons total, of which 24,000,000 wheat and rye is food and 8,000,000 coarse grains.

You will note, incidentally, that there has been, as compared to the July 12 estimate, there is still less wheat and rye than we estimated at that time, and the corresponding increase in the estimated availabilities of coarse grain.

The improvement between October 27 and February 5 is primarily a result of improved crops in the southern hemisphere particularly Argentina and Australia. We are now hopeful that Argentine exports will be a million and a half tons more than we had expected last October, and the Australian exports nearly a million tons larger.

There are minor changes in the other sources, but of no very large significance.

Senator FLANDERS. You also have European crop estimates here.

Dr. FITZGERALD. Yes, sir. In order to illustrate, to give some basis for comparison, Mr. Chairman, I have shown the European wheat and rye crops, exclusive of the Union of Soviet Socialist Republics.

Senator ROBERTSON. Will you explain to me why it is that 3 years after the war, when they have had a chance to get more machinery and more fertilizer, and to get the mine fields cleared up, and get agriculture back to a normal basis, you estimate that Europe will produce about 8,000,000 tons less of wheat and rye than they did the first year after the war?

Dr. FITZGERALD. Yes, Senator. The 1947 crop—that is, the crop of wheat and rye that was harvested in Europe last fall—was very adversely affected by the worst weather conditions in Europe in at least 50, perhaps 75 years. The winter of 1946-47 was extremely cold. There was a great deal of freezing and thawing, and much fall-planted wheat and rye was killed during the winter, and starting about the 1st of July, western Europe, with some very minor exceptions, only, had one of the driest summers on record.

Those two contributed to a decrease of, as you point out, sir, nearly 8,000,000 tons in 1947 crop estimates.

Senator ROBERTSON. The figures for 1948 would include what would be produced in 1948, and my information is that crop prospects in Europe now are very good; that is my assumption.

Dr. FITZGERALD. May I comment on that?

Senator ROBERTSON. Yes.

Dr. FITZGERALD. Your statement as to the crop prospects for the harvest of 1948 is correct. The prospects are very good for most

of western Europe. Those crops, however, will not be harvested, as you know, sir, until beginning in Italy in the middle of June and running through October. So that as of the present time, the world has to eat on the crops that are harvested already. It will be unquestionably in better position, sir, when the new crops are harvested next fall, in my opinion.

Senator FLANDERS. What is this last line, European wheat and rye crops? Those are not crop expectations for this year of 1948?

Dr. FITZGERALD. No, sir; they are the crop for the first half of this crop year.

The estimates for 1947, headed "1947-48," are for the harvested crops in the fall of 1947 and those that were harvested in the Southern Hemisphere around Christmas time.

Senator ROBERTSON. If they get a harvest in the summer that will feed them in the coming early and late fall of 1948, would it be necessary for us to ship as much grain out of this country in 1948 as we did in 1946 and 1947?

Dr. FITZGERALD. I think that if the prospects materialize as now indicated for the calendar year 1948, your statement would be correct, sir. This table is based upon the crop year 1947-48, which runs only through June 30 of 1948. The last half of 1948, sir, in my opinion, the situation will be substantially easier, but until that time it is going to be very difficult.

Senator ROBERTSON. Do you not agree with me that this formulating a plan to help western Europe, we should not do for them what they can do for themselves, and if we ship them an excess of consumer goods, it will be calculated to kill their incentive to produce consumer goods.

Dr. FITZGERALD. Obviously, sir, if you ship an excess of consumer goods.

Senator ROBERTSON. I would not say an excess, but if they rely on us for consumer goods when we want to see them get on a self-supporting basis through the rehabilitation of their industry, should we not concentrate more on what is going to enable them to support themselves, rather than on a program of our supporting them?

Senator FLANDERS. What you are saying, I judge, Dr. FitzGerald, is that if these estimates apply when, to the end of June?

Dr. FITZGERALD. Yes, sir.

Senator FLANDERS. That their known supply will be short up to that time; that is what you are saying.

Dr. FITZGERALD. That is correct.

Senator FLANDERS. And after that time you have hopes.

Dr. FITZGERALD. Yes.

Senator FLANDERS. I wonder if it is proper to ask you what in your judgment is the reason for the break in the grain market in the last few days. I have not even seen any figures for today. I do not know how it is going. Is that due to some new news or new estimates as to the world grain crops?

Dr. FITZGERALD. I think, Senator Flanders, that it is due to a combination of factors. One of the obvious new factors is the evidence of increased availabilities from the Southern Hemisphere. The other consideration which I feel to be quite important is that stocks of wheat in the United States on January 1 of 1948 were larger than most peo-

ple I believe had anticipated. Feed consumption of wheat for feeding the first half of the 1947-48 crop year—that is, the last half of 1947—was something in the neighborhood of 70,000,000 bushels, which was much lower than most people anticipated.

In conjunction with that decrease in feed consumption in this country, there is also, of course, the improvement in the prospects for the winter-wheat crop in this country. It went into the fall late and moisture conditions were not good. Since the December 1 crop report of the Department of Agriculture, weather conditions in the winter-wheat part of this country have been, I should think it is fair to say, exceptionally good; heavy snows, no freezes, except when there was a snow cover, led experts in the field to be reasonably confident that the winter-wheat crop has improved, and will, unless adverse circumstances develop, continue to improve.

That means a larger supply than was previously expected.

Senator ROBERTSON. Is it also true that a few speculators who were pushing the market up when the public thought we were going to export more than we could afford to export have been chilled in their ardor by congressional investigations of what they were doing?

Dr. FITZGERALD. I cannot answer that question for you.

Representative BENDER. The witness says that they find the stocks greater than they anticipated or figured. Whose figures are we using as the basis for our action here? Would you say the Department of Agriculture figures were wrong? Would you say that?

Dr. FITZGERALD. No, sir.

Representative BENDER. We have more on hand now, you say, than we anticipated?

Dr. FITZGERALD. Yes. I do not know whether there is anybody here from the Department of Agriculture or not, but the Department of Agriculture gets out once every 3 months a report on stocks of grains held in all positions in the United States. Between those quarterly reports there are no current figures on the exact stock position so between those quarter issues of those quarterly reports, one merely has to estimate what he thinks it is, and the fact is that the actual disappearance as shown when the stock report was reached, turned out to be less than most people estimated.

There is nothing wrong with the statistics. It is just a question of the difference between estimate in advance of the facts and the statistics of record when they are issued.

Senator FLANDERS. How about the pertinence of this table in its relationship to the necessity or desirability of allocation of grain for distilling purposes? Do you want to say anything on that?

Dr. FITZGERALD. I have no useful comment to make on your specific question, Senator. I should like to supplement this table in one or two respects for the committee's use.

Senator BUCK. You raise the question about the present commodity market. In this morning's paper, Secretary Anderson is quoted as saying this, in a statement apparently to bolster up yesterday's nose-diving market; he said he expected to buy a million additional bushels of wheat. In Mr. Anderson's summary of the export probabilities, he said they might have a price-boosting effect.

I am completely confused. We sit over in another meeting for hours and hours every day trying to find ways to bring prices down,

and when they start down, we find the administration trying to push them up. Which way do we want to go?

Senator FLANDERS. I would like to feel, Senator, that the administration, Democrat or Republican, is as nearly neutral marketwise as possible to make it.

Senator BUCK. In this statement, Mr. Anderson is worried about the price of wheat going down. He wants to get it back. It has gone down 20 cents.

Representative HERTER. You may know that the market after that statement broke this morning at the low limit.

Senator BUCK. A few more days and this committee's work will be completed without having to take any action.

Senator FLANDERS. You may proceed with your observations, sir.

Dr. FITZGERALD. Our current estimates of the imports of grain that are needed to maintain rations through the balance of this crop year run in the neighborhood of this 42,000,000-ton figure. In other words, it is our feeling that 32,000,000 tons of grain in the aggregate will generally tend to maintain present bread rations. The major problem that is facing the committee now is the relatively small proportion of the bread grains in the available supplies for this half.

If in addition to our estimates of supply coming back to the July 12 level, the make-up between wheat and rye and coarse grains had also come back, we would feel much easier than we had expected to feel. We are, however, after pushing about as much coarse grains into the bread ration as we reasonably can—

Senator ROBERTSON. Do you call corn a coarse grain?

Dr. FITZGERALD. Yes, sir.

Senator ROBERTSON. What is coarse about corn as a food?

Dr. FITZGERALD. Senator Robertson, I was before another committee yesterday, and the question came up, and I believe it was Congressman Andresen said he knew what I meant by coarse grains after eating the corn bread that was available in France last summer, used as a substitute for wheat or rye flours, sir. The coarse grains—corn, barley, grain sorghums—give a much poorer quality, a product much grittier, much heavier, than wheat or rye flour do.

Senator ROBERTSON. What do you mean by grittier? Is it a question of difficulty in eating?

Dr. FITZGERALD. In eating it, difficulty in digestion, particularly. The way corn has to be used in Europe—they do not make southern corn bread.

Senator ROBERTSON. That may be another problem; but personally I have always preferred corn bread to wheat bread, and I have never felt any ill effects from the grit or other of those coarse qualities in it, and that is the general rule in the South, but we know how to cook it.

Dr. FITZGERALD. Yes, sir.

Senator ROBERTSON. And we use white corn that matures in the long summer, and we grind it on a water wheel, and we do not over-heat it or pulverize it like you do in a flour mill, and we think it is the very best kind of bread if you know how to cook it.

Dr. FITZGERALD. It is. I have used it.

One of the difficulties, of course, is that there are no southern corn mills in Europe, or very few; and the second is that after having gotten the product, the baker and the housewife in Europe does not have

the experience that your wife, or the wives of many southerners, have in handling the stuff.

Senator BUCK. It is coarse when it gets over there, but not on this side.

Senator FLANDERS. You may proceed. I may say that we are a little short on time, and I am sorry that we had to delay you.

Dr. FITZGERALD. I have just one or two remarks which will complete any observations I may have.

What I should like to mention is that as far as we see the picture for the balance of this crop year, we are in a very tight position for food grains on the basis of the present expected availability. For the United States, those expected availabilities are 12,000,000 tons, which is 450,000,000 bushels. If this country finds it practicable in the light of its internal situation to make an additional forty or fifty million bushels of wheat available during the balance of this year—that is the crop year—it would be extremely valuable in piecing out the balance of this year's bread rations.

Senator FLANDERS. Dr. FitzGerald, there is one question raised in a hearing yesterday by Senator Watkins, who is not here, who was somewhat disturbed by the amount of grain we are exporting, as I said earlier, to Latin America, and perhaps other parts of the world, where there had been no war distress to be alleviated.

The figures we were looking at indicated comparatively large exports to Cuba—as I remember—Colombia, Brazil; can you say a word as to the possibility of decreasing those exports?

Dr. FITZGERALD. There is a possibility of decreasing exports to Latin-American countries, but it is not very large. The export quotas that the United States has on Latin-American countries generally are on the conservative side. They are much less than these countries could consume.

We frequently get appeals from Venezuela, Colombia, Panama, Peru, Brazil, Latin-American countries generally, for increased supplies. One difficulty this year, sir, is that normally those countries get some flour from Canada. This year they are getting practically none from Canada because of the short Canadian wheat crop.

Senator ROBERTSON. Most of the flour used in Cuba has come from the United States.

Dr. FITZGERALD. Yes, sir.

Senator ROBERTSON. They produce no wheat in that country.

Dr. FITZGERALD. Yes, sir.

Senator ROBERTSON. Could they not appeal to some of the Latin-American countries to step in while we let ours go to western Europe?

Dr. FITZGERALD. For wheat, sir?

Senator ROBERTSON. Yes.

Dr. FITZGERALD. The only Latin-American country that produces exportable surpluses is Argentina.

Senator ROBERTSON. I know that, and they make you pay through the nose to get it.

Dr. FITZGERALD. Yes, sir; they do. If Argentina would ship more wheat to other Latin-American countries, it would reduce the quantity that Argentina ships to Europe, where most of it does go.

Senator ROBERTSON. I notice from your table that the expected crop in the Argentine is up a million and a half tons.

Dr. FITZGERALD. That is our estimate, Senator, of the exports from Argentina.

Senator ROBERTSON. Available exports; yes.

Dr. FITZGERALD. Yes. We have been agreeably surprised, sir, in the last 4 months to note the big increase in the exports of grain from Argentina.

Representative HERTER. Might I ask one question pertinent to the hearing now before us?

In your coarse-grain figures, dealing particularly—I assume that has to do with the corn—that we are discussing here in connection with savings in the distilling industry, when your figures were made up of the export availabilities, you were already giving effect to the savings that might be made in the distilling industry?

Dr. FITZGERALD. The estimate of exports of coarse grains from the United States does not include savings from the distilling industry. It represents largely the exports that were made in July, August, and September of last year, and includes practically no exports for the first 6 months of 1948.

Representative HERTER. In other words, savings that might be effected through curtailment in the distilling industry from now on would merely act as replacements on the farm for possible wheat that might be consumed by animals, is that it?

Dr. FITZGERALD. That would be by far the preferential way of using it; yes, sir.

Representative HERTER. Then in your wheat-export figures, have you given effect to that shift?

Dr. FITZGERALD. No, sir; we have not. We have carried in this table—I have carried it in this table—the 450,000,000 bushels of wheat which is the official export target for the United States, and the 70,000,000 bushels of coarse, almost all of which has already been exported.

Representative HERTER. So that future export of corn between now and the end of the year does not enter into the picture at all?

Dr. FITZGERALD. It has not been included in this table. Is that your question?

Representative HERTER. That is it.

Dr. FITZGERALD. It has not been allowed for in this—anywhere in this table, either as corn or as a replacement for more wheat.

Representative HERTER. For the second and third quarters of the year you prepare allocations; you are not counting in corn as an exportable commodity.

Dr. FITZGERALD. No, sir. For one thing, the official advice from the United States has not authorized us to do that yet; and second, if the administration or the Congress feels that it can spare more grains this year, we are hopeful that they can spare them in the form of wheat and use any savings that may be made in this distilling industry or any other place as a replacement in the feed program.

Representative HERTER. The question has been raised here quite frequently with regard to exports to Canada of corn not for feed purposes but for distilling purposes, and if you are not counting on any of that in your present program, is that because there are no allocations being made to Canada?

Dr. FITZGERALD. That is correct, Congressman Herter. Throughout the war, and since the war, the policy of the administration has been to permit free flow of commodities across the Canadian border, and we make no allowance in these estimates for that movement.

Representative HERTER. If it were three or four million bushels in these over-all figures, that is comparatively inconsequential.

Dr. FITZGERALD. It would hardly register on these thousands of tons.

Representative BENDER. You have no way of knowing, do you, as to what percentage of these experts from these various countries find their way into liquids rather than solids?

Dr. FITZGERALD. Of the exports, Congressman Bender, very small, very inconsequential quantities are processed into beer or other liquors. There is a restricted use in almost all countries of domestically produced grains.

Representative BENDER. How about Scotch whisky—where do they get their grains?

Dr. FITZGERALD. That is domestically produced barley, sir.

Representative BENDER. Right in Scotland.

Dr. FITZGERALD. Yes.

Representative BENDER. And in England.

Dr. FITZGERALD. Yes.

Representative BENDER. The representations that have been made, and that we read about quite frequently, are to the effect that much of this Scotch whisky is made from grains that come from this country or other countries. There is no foundation for that?

Dr. FITZGERALD. There is no consequential foundation to that, so far as our work is concerned. In estimating the import requirements of grain on the part of importing countries, we make no allowance whatsoever for the use for industrial purposes, for alcohol or beer. If they make any alcohol or make any beer, they have to make it by skimping their own economy in some way.

Senator FLANDERS. Any further questions?

Senator COOPER. Dr. FitzGerald, what is your position with IEFC?

Dr. FITZGERALD. I am secretary general of IEFC.

Senator COOPER. It is the function of IEFC, thinking particularly of the European countries, to estimate the production in those countries of grains—is it—their minimum requirements, and then determine export quotas from various countries to meet the deficit?

Dr. FITZGERALD. Substantially correct, except the council has no upper-sovereign authority. It can merely recommend its best judgments to the member countries.

Senator COOPER. Your body is the body that secures the information——

Dr. FITZGERALD. Yes, sir.

Senator COOPER. To give these recommendations; is the body which is continually revising its opinion in the light of production and of changes in crop estimates.

Dr. FITZGERALD. Yes, sir.

Senator COOPER. What did your body recommend as to the amount of grain which should be exported to the European countries—as to the amount that should be exported to those countries to meet their minimum needs?

Dr. FITZGERALD. Senator Cooper, I have difficulty answering that question, because I first have to either get a definition from you, or make a definition of what minimum needs are.

Senator COOPER. I cannot make your definitions for you, but sometime I assume you recommended to the Secretary of Agriculture, and to the Executive department of the United States Government, that the United States should export a certain amount of grain to needy European countries.

We have heard it from time to time as different amounts, sometimes 450,000,000 bushels, sometimes 480,000,000 bushels, sometimes 520,000,000 bushels. What did you recommend to the Executive department should be exported from this country?

Dr. FITZGERALD. The IEFC, Senator Cooper, has not made any recommendation to the United States Government covering the whole of 1947-48 crop year. Back last June we made a recommendation for the July, August, September quarter, and in August we made a recommendation for October, November, and December, and in December we made a recommendation for January, February, and March.

Senator FLANDERS. Have you ever added them up?

Dr. FITZGERALD. Yes, sir; we have added them up; in fact, we keep them accumulative, as a matter of fact, and the recommendations that we made to the United States Government for the first 9 months of this crop year are slightly less than the actual shipments during the first 9 months.

Senator COOPER. What was that figure, and at what time would that period expire?

Dr. FITZGERALD. Our present outstanding recommendation runs through March 31, Senator Cooper.

Senator COOPER. Then, considering the first 9 months of the fiscal year 1948, how much have you recommended should be exported to these countries?

Dr. FITZGERALD. You are thinking of the 16 countries, now?

Senator COOPER. Yes.

Dr. FITZGERALD. May I submit that for the record, or take time to add them up out of here?

Senator COOPER. Can you give any estimate?

Senator FLANDERS. I suggest that the witness might, if he wishes, take a seat two or three seats down, with a pencil and a piece of paper, and work on it. We will consult him later after we call another witness. Is that all right with you?

Senator COOPER. Yes. My purpose is to find out if the amount that this body, which is charged with the duty of making estimates, has recommended for export is the same figure that the administration speaks of when it speaks to Congress.

Senator FLANDERS. The next witness on the list is Dr. Armand Hammer, president of the United Distillers of America.

Dr. HAMMER. My company, of which I am president and the principal stockholder, is privately owned and is the largest independent distilling company in this country, operating nine distilleries in the States of New Hampshire, New York, Pennsylvania, Kentucky, Louisiana, Maryland, and Missouri. We have been in this business since 1944.

Representative HERTER. What do you mean by "independent"?

Dr. HAMMER. Practically every other company is a publicly owned company; ours is privately owned.

My company is a member of the Distilled Spirits Institute, and I am a director of that organization.

The total daily grain-mashing capacity of our plants is 47,673 bushels of grain—or a total of 1,240,000 bushels of grain per month. Our quota during the month of January, on the basis of the formula devised by the Secretary of Agriculture, namely, one-third capacity and two-thirds historical, was approximately 10 percent of this amount.

We are opposed to any method of allocation which would further cut down the amount of grain allotted to us, as it would be unfair, discriminatory, and would tend to legislate us out of business. I am sure that is not the intent of this committee or of the Congress.

We are opposed to the plan suggested here, namely, that the allocation system be based entirely on the historical period from December 1, 1946, to June 30, 1947. During this period several of our plants were undergoing capital repairs and were, therefore, out of operation. As it is, we have been hurt by the present formula, where plant capacity is taken into consideration as only one-third of the formula.

I believe it is impossible to find a formula for allocating grain which will satisfy everyone. In 1946, when the method of allocation was based entirely on grain capacity, some of our competitors insisted that this was unfair and discriminatory, and that the method of allocation should be based entirely on history. Public hearings were held before an impartial committee appointed by the Secretary of Agriculture. It was found that the historical basis would discriminate against new companies, such as ourselves, and would favor the Big Four, namely, Seagram, Hiram Walker, National Distillers, and Schenley, who control approximately 75 percent of the bottle sales, while owning only about 47 percent of the plan capacity of the country. The principal business of our company is selling bulk spirits to rectifiers and other distilleries.

Representative BENDER. Are these companies members of the Distilled Spirits Institute?

Dr. HAMMER. Yes, sir; it is one company, all a consolidated company.

Representative BENDER. What does this fancy name mean?

Dr. HAMMER. What does the institute mean?

Representative BENDER. Yes.

Dr. HAMMER. The institute represents about 60 to 65 percent of all of the distilleries of the country, and it is a public-relations organization, and an organization that is interested in promoting the welfare of the distilling industry.

Therefore, any allocation system based on case sales would discriminate against us.

In view of the President's statement that curtailment of grain by the distilling industry is necessary for reasons of national security, it is my opinion that Congress should limit the use of grain by the distilling industry to 3,000,000 bushels per month until the next harvest is in. If this is not done, I fear that the distilling industry will consume more than three times this amount of grain during the next 6 months. As a result, considerable resentment would be aroused against the distillers, and public opinion might force the complete

stoppage of all distilling, with a return to the prohibition era, with its attendant evils. This would destroy the investment of our company and other companies engaged in this industry.

Spokesmen for the distilling industry proposed to the Secretary of Agriculture in December of last year that the grain allocation be set at $3\frac{1}{2}$ million bushels per month. The Secretary suggested $2\frac{1}{2}$ million bushels, which figure he set for January. I believe a compromise figure of 3,000,000 bushels per month would be the best solution to the problem.

I am convinced that a voluntary system of allocation will not work because there are some distillers who will not play ball. This would work hardship on those distillers who lived up to their agreement.

For example, in compliance with the request of the President of the United States, our company is operating our plants at the same rate that we operated in January, namely, at 10 percent of our capacity. Yet we know there are other companies operating at full capacity—gaining an unfair competitive advantage. Therefore, in my opinion, it is imperative that allocation powers be granted to the President of the United States immediately before the matter gets out of hand and irreparable damage is done. I believe that the Secretary of Agriculture has done his best to administer, in a fair and impartial manner, the allocation powers delegated to him by the President.

I am appearing before this committee not only as the president of a distilling company, but also as a physician and relief worker, who has had actual experience in feeding hungry people during a period of famine. In 1921 I was in charge of a medical relief mission to Russia, at the time Herbert Hoover organized shipments of food to that country, saving the lives of 10,000,000 people. I know what a loaf of bread means to a hungry person, and I am glad to contribute in any way I can to relieve the suffering of people in the war-torn countries of Europe.

When Mr. La Guardia made his appeal in 1946 for aid to the starving people of Europe, I was the first to donate 1,000,000 pounds of flour. I also was instrumental in getting the entire distilling industry to contribute 25,000,000 pounds of grain to this worthy cause, and I contributed 6 percent of this amount, which was apportioned to our company on the basis of our plant capacity. I think this was a fine gesture on the part of the distilling industry and as long as grain continues to be needed for feeding hungry people, I am sure the distillers will do their share.

In connection with the curtailment of the use of grain by distillers, I should like to suggest to this committee that serious attention be given to changing the label regulations, in order that surplus potatoes may be used for distilling, without the necessity of indicating on the label that the spirits were made from potatoes.

Our company was the first company in this country successfully to distill neutral spirits from potatoes for beverage purposes. There is no doubt that spirits properly made from potatoes cannot be distinguished from spirits made from grain.

Representative HERRER. Does the same hold for spirits made from molasses?

Dr. HAMMER. The Seagram Co. asked us if we could make a spirit from molasses that would be equal to grain-made spirits. They called us up after we delivered the sample, and would not believe that it was made from molasses; they did not know the difference, whether it had been made from molasses or grain.

In the minds of the consumers, however, there seems to be prejudice against potato spirits. If the label regulations were changed, I am sure that most of the companies who are now complaining about the curtailment of grain would be able to make up any deficiency by the use of surplus potatoes, the disposal of which still remains a problem in this country.

Senator FLANDERS. Thank you, Dr. Hammer. Are there any questions?

Representative HERTER. In connection with the use of potatoes, you can make the neutral distilled spirits from those; you cannot make whisky from them.

Senator FLANDERS. What about Irish whisky?

Dr. HAMMER. I think you can make whisky from them. In fact, we have made some experiments. We have some so-called potato whisky aging now, but the trouble is, we only put it away in 1945, and it will be another year or two before we can really know whether it is as good as American whisky that has aged 4 years.

Senator FLANDERS. Congressman Bender?

Representative BENDER. No.

Senator FLANDERS. Senator Buck?

Senator BUCK. No.

Senator FLANDERS. Thank you, sir.

You may give us the results of your calculations now, Dr. Fitzgerald.

Dr. FITZGERALD. The allocations recommended for the Marshall plan countries, including Germany, that is the bizonal area, and French Germany, and French North Africa, for the period July through March, 8,697,000 long tons from United States sources.

Senator FLANDERS. And expressed in bushels?

Dr. FITZGERALD. It is 298,000,000 bushels of wheat, and 28,000,000 bushels of coarse grains, a total of 326,000,000 bushels.

Senator FLANDERS. Have you made any recommendations for the balance of this crop year?

Dr. FITZGERALD. No, sir; we have not.

Senator FLANDERS. Thank you.

Representative HERTER. Do you think there was less used on the corn?

Dr. FITZGERALD. There was a reduction in the feeding of both corn and oats in the first half of the year, which represented quite a significant catching up in the short supply.

Senator FLANDERS. Any further questions? If not, thank you, Dr. Fitzgerald.

Dr. FITZGERALD. Thank you.

Senator FLANDERS. We have two representatives of labor organizations on our list. Is Mr. Mason of the A. F. of L. here?

Do you suppose you can present your case in 10 minutes?

STATEMENT OF WALTER MASON, NATIONAL LEGISLATIVE REPRESENTATIVE, AMERICAN FEDERATION OF LABOR, WASHINGTON, D. C.

Mr. MASON. I will try.

Senator FLANDERS. Thank you.

Mr. MASON. My name is Walter J. Mason, national legislative representative of the A. F. of L., Washington, D. C.

Mr. Chairman, I appreciate this opportunity to appear before your committee, and express briefly the view of the A. F. of L. with respect to legislation to curtail the uses of grain in the production of alcohol for beverage purposes. It is a courtesy that was not presented to our organization back in last October when the distillers and Mr. Luckman agreed to a so-called voluntary shut-down for a 60-day period.

The A. F. of L. represents over 100,000 workers in the distilling industry, in kindred crafts, in allied industries, which are vitally affected by legislation that this committee is now considering.

At the outset, let there be no misunderstanding about our position. The American Federation of Labor recognizes clearly the humanitarian and political necessity of extending aid to feed the hungry, the millions of hungry people in western Europe. We realize that unless they receive that aid, that they are at the mercy of a ruthless force which is out to destroy their freedoms and their liberties, which they are now being governed by. We know that communism thrives on hunger, poverty, misery, and oppression, and we are certainly the one institution in this country that is strongly opposed to communism.

We know that hungry people do not have time to think. They lose all sense of reason. What they are concerned about is immediate relief, and when they are hungry, they do not have time to think about the after-effects.

So therefore the American Federation of Labor is strongly in support of the European recovery program. We support the Marshall plan, or any similar program which will meet this need.

However, we are vitally concerned about our problems here at home. We are vitally concerned about the people in this country who would be affected by any measure that is worked out to extend this aid to Europe.

Back in last October I served on the Luckman committee, representing President Green. And I wish to call this to your attention, to try to bring out some of the problems that our people were faced with during the past several months.

Representative BENDER. You are for the Marshall plan unqualified or qualified? Just how far would you go?

Mr. MASON. We support President Green's statement, and I believe in his testimony before the committee, he gave his full support to the Marshall plan.

Representative BENDER. Then you are interested in the domestic economy, too.

Mr. MASON. That is correct.

Representative BENDER. And you feel that the cost of living and our whole domestic economy is not affected in any way by shipments abroad and so on, by the support of the Marshall plan. You are against the high cost of living?

Mr. MASON. That is right.

Representative HERTER. You are for the Marshall plan.

Mr. MASON. We are.

Representative HERTER. Would you be for it against the high cost of living, too?

Mr. MASON. We are for the principles of the Marshall plan.

Representative HERTER. I see. You are not unqualifiedly for the Marshall plan. You are for the principles; to what extent, to what degree?

Mr. MASON. I think there is some exceptions. President Green has testified before the committee with reference to that.

Representative HERTER. You are here, not President Green. How far would you go?

Mr. MASON. I give my full support to the European recovery program, whether it is the Marshall plan or any similar programs which will follow out the principles.

Representative HERTER. But you want these hundred thousand workers in the distilling industry to have jobs; you do not want them out of work.

Mr. MASON. We certainly feel that some sacrifices have to be made here at home.

Representative HERTER. To what extent?

Mr. MASON. Well, we feel that the sacrifices should be shared equally by every citizen, and I would like to point out the background of this Luckman committee to try to point out what our problems were during the past several months.

At the first meeting of the Luckman committee, we discussed the food conservation program. It was just at that time when it was beginning to get some momentum, and it was generally agreed that everyone, every citizen would participate and make some type of a sacrifice. The objective at that time was to conserve 100,000,000 bushels of grain, to try to meet commitments that were made by our State Department, and it was agreed at that time that as far as our citizens were concerned, that we had meatless Tuesdays and we had eggless Thursdays, and all industries were supposed to participate in some way in curtailing the uses of grain for that purpose.

And that meeting consisted of such a general discussion with nothing agreed to, but following that meeting we read in the newspaper that the distillers and Mr. Luckman agreed to shut down the industry for 60 days without any consultation with the representatives of the workers. And we have over 100 agreements in that particular industry. Those agreements were practically abrogated, supposedly on a voluntary basis.

Representative BENDER. You did not agree with that, actually?

Mr. MASON. No; we did not. It is generally the principle when you have a collective bargaining agreement in effect that the parties sit down when a problem arises and try to work out a medium to solve the solution, to solve the problem.

Representative HERTER. Was it your understanding that prior to the agreement to shut down entirely, there had been an industry agreement with Mr. Luckman to curtail by 50 percent?

Mr. MASON. No; the first we knew about it was in the newspapers. We read where the distillers and the committee agreed to shut down for 60 days.

At the next meeting that we had, I attended that meeting, and I strongly opposed the action of the committee. Well, I found out that it was not the committee, that it was Mr. Luckman himself, through some advisory committee or an executive committee, which used to make recommendations to the full committee, and he agreed that it was improperly handled.

I pointed out to him that the thousands of people that were involved and what it meant, lay-offs, particularly in small communities, where they could not get employment, and particularly I pointed out that it was not a very nice Christmas present.

Senator FLANDERS. I think, sir, that we can sympathize with you with regard to that.

I wonder if you can, having now had this brief opportunity to be consulted on this proposed next move, whether you can give us the advice and information which will help us in coming to a conclusion on this one.

Mr. MASON. What I am trying to do is to point out the problems that we have been faced with during the past several months, so that we can have those cleared up, in whatever program that is worked out by your committee here, or passed by Congress. We do not want to be faced with the same problems that we went through during the past several months, because every worker in that particular industry and allied industries were working under fear. They did not know whether they would work from one day to the other.

As I said before on this committee, they agreed that it was improperly handled, and that it would not happen again.

Well, then, we proposed, we will only agree to go along on some program. They said they felt that they needed to conserve 10,000,000 bushels of grain, and our representatives agreed to curtail operations and stretch it over a period, say of 1 year, so that you would have a minimum of unemployment, and not too many people would be affected.

Well, it was pointed out that it was an immediate problem, and that they have already agreed to shut down for 60 days, and there was nothing that could be done about it.

Well, it so happened that the distillers which I think did a fair job in trying to cause the least unemployment as possible, they transferred men from one operation to another, and they had mechanics washing windows, and so on, and they did minimize unemployment in that particular industry, although there were still thousands that were unemployed.

It did not affect only that industry, but the glass bottling and the cooorage plants, which were immediately closed down because the distillers canceled orders.

So then when the 60-day period ended, or prior to that time, the Secretary of Agriculture called another meeting over at the Agriculture Department, and pointed out that he had to continue to curtail the uses of grain in that particular industry for another period of time, and he tried to get the response on a voluntary agreement between the distillers themselves.

Well, we did not oppose that, and took the position that we were willing to go along as long as an agreement was worked out or a formula was worked out to allocate grain in that particular industry on a fair and equitable basis, and that consideration should be given to the unemployment problem.

It so happened that the distillers and the Secretary of Agriculture could not agree on any voluntary plan, and particularly the formula that was presented to them by the Secretary of Agriculture, which was 2½ million bushels, and most of the distillers felt that they needed 3½ million bushels to operate on a profitable basis.

Well, we did not question whether it was two and a half or three and a half million so long as we were taken into consideration and at least be able to sit down and work out the mechanics of how this formula was to be applied.

It so happened that no agreement was reached, and then the Secretary appealed to Congress to pass legislation to give him the authority to allocate in that industry.

Well, now, let me explain what happened on that formula that was worked out by the Secretary of Agriculture. This two and a half million bushels of grain proposition also set up a minimum of 6,000 bushels for small plants, which was a minimum and although not enough, was satisfactory to our people. The grain that was allocated to the small plants was transferred to the larger plants, and the small plants were shut down. The small plants are located in small communities where the people that were laid off were unable to get employment any place else. I do not think it only applied to small plants; it applied to some independent plants or small plants which had to close down because the amount of grain was not sufficient for them to operate profitably, and very little consideration was given to the hardship cases.

So we protested to the Secretary of Agriculture, and pointed out what was happening. He agreed tentatively over the phone, that is, his office agreed that he would do what he could to prohibit the transfer of grain from one plant to another.

I have a sketch here to give you an idea of these small plants. There are 140 listed here, and I think half of them are in communities with less than 10,000 population.

(The list is as follows:)

AUTHORIZED DISTILLERS, LOCATION AND DEPENDENT POPULATION

California:

Napa, 7,740: Hedgeside Distillery Corp.

Sausalito, 3,540: The American Distilling Co.

Colton, 9,686: The Schluter Corp.

Yountville: Mountain View Distillery.

Colorado: Arvada, 1,482: Con Moore's Distillery.

Connecticut: Hebron, 250: United Distillers Products Corp. (Amston).

Georgia: Albany, 19,053: Paramount Distillers, Inc.

Illinois:

Peoria, 105,087:

Hiram Walker & Sons, Inc.

National Distillers Products Corp.

Pebble Springs Distilling Co.

Scottish-American Distillers, Ltd.

Pekin, 19,407: The American Distilling Co.

Columbia, 1,871: Columbia American Distillers, Inc.

Belvidere, 8,094: Belvidere Distilling Co.

Indiana:

Lawrenceburg, 4,413:

Joseph E. Seagram & Sons, Inc. (Greendale).

The Old Quaker Co. (Greendale).

James Walsh & Co., Inc. (Greendale).

Indiana—Continued

Terre Haute, 62,693:

Commercial Distillers Corp.

Merchants Distilling Corp.

Tell City, 5,395: Park & Tilford Distillers, Inc.

Vincennes, 18,228: W. P. Squibb Distilling Co., Inc.

Iowa:

Clinton, 26,270: Clinton Distilling Co.

Muscatine, 18,286: Grain Processing Corp.

Kentucky:

Bardstown, 3,152:

National Distillers Products Corp.

Barton Distilling Co.

Waterfall & Frazier Distillery Co.

Heaven Hill Distilleries, Inc.

The George T. Staggs Co.

The Willett Distilling Co.

J. T. S. Brown's Son Co. (Early Times).

Double Springs Distillers, Inc. (Greenbrier).

Louisville, 319,077:

Bernheim Distilling Co.

National Distillers Products Corp.

Park & Tilford Distillers of Kentucky, Inc.

Frankfort Distilleries, Inc.

General Distillers Corp. of Kentucky.

Joseph E. Seagrams & Sons, Inc.

Carstairs Bros. Distilling Co., Inc.

Louisville Distilleries, Inc.

Yellowstone, Inc.

Brown-Forman Distillers Corp.

Lexington, 49,304: Jas. E. Pepper & Co.

Lawrenceburg, 2,046:

The Calvert Distilling Co.

Ripy Bros. Distillers.

Kings Mill Distilling Co.

Hoffman Distilling Co.

Lebanon, 3,786: The George T. Staggs Co.

Owensboro, 30,245:

The Fleischmann Distilling Corp.

Glenmore Distilleries Co.

Medley Distilling Co.

Covington, 62,018: The New England Distilling Co.

Boston: The Churchill Distilling Co. (Churchill).

Forks of Elkhorn: The Old Grand Dad Distillery Co.

Cynthiana, 4,840: Carstairs Bros. Distilling Co., Inc. (Lair).

Shively: Stitzel, Weller Distillery.

Limestone Springs: The George T. Staggs Co.

Athertonville: Old Farmer's Distillery, Inc.

St. Francis: Blair Distilling Co.

Maysville, 6,572: The George T. Staggs Co.

Burgin, 703: Bernheim Distilling Co.

Frankfort, 11,492:

National Distillers Products Corp. (Glenn's Creek).

Sam Clay Distillery, Inc. (Kennebec Station).

Brown-Forman Distillers Corp. (Glenn's Creek).

The Old Taylor Distillery Co. (Glenn's Creek).

The George T. Staggs Co.

Anchorage, 690: Waterfall & Frazier Distillery Co.

Ekron: Old Poindexter Distillery, Inc.

Newport, 30,631: Pebbleford Distillery Co. (Wildier).

Carrollton, 2,916: Blue Ribbon Distilleries Co.

Valley Station: John P. Dant Distillery Co. (Meadowlawn).

Midway, 886:

Old Colonel Distillery.

Park & Tilford Distillers, Inc.

Loretto:

Loretto Distilling Co.

Old Happy Hollow Distillers, Inc.

Kentucky—Continued

Nicholasville, 3,192: Kentucky River Distillery, Inc. (Camp Nelson).
 Gethsemane: United Distillers of America, Inc.
 Stamping Ground: The George T. Staggs Co.
 Fairfield: H. McKenna Distillery.
 Deatsville: Country Distillers Products.
 Dant: The Dant Distillery Co.
 Clermont: James Bean Distilling Co.

Louisiana:

Gretna, 10,879: United Distillers of America, Inc.
 Westwego, 4,992: Publicker Commercial Alcohol Co. of Louisiana, Inc.

Maryland:

Baltimore, 859,100:
 Paul Jones & Company, Inc.
 National Distillers Products Corp.
 James Distillery, Inc.
 United Distillers (of America) Ltd.
 Carrollton Springs Pure Rye Distillery, Inc.
 The Calvert Distilling Co. (Relay).
 Fullerton, 1,813: The Frank L. Wright Distilling Co. (Loreley).
 Cedarhurst: Joseph S. Finch & Co.
 Owings Mills:

Park & Tilford Distillers, Inc.
 Hunter-Wilson Distilling Co., Inc.

Havre de Grace, 4,967: Harford County Distillery, Inc.
 Westminster, 4,692: The Sherwood Distilling Co.

Massachusetts:

Clinton, 12,440: New England Distillers, Inc.
 Readville: Berke Brothers Distilleries, Inc.
 Newburyport, 13,916: A. & G. J. Caldwell, Inc.
 East Taunton: Joseph S. French and Company.
 Boston, 770,816: Highland Distilleries, Inc.
 South Boston: Felton & Son, Inc.

Minnesota: Shakopee, 2,418: George Benz Sons, Inc.

Missouri:

Joplin, 37,144: Ozark Mountain Distilling Co.
 Labadie, 400: Big Springs Distilling Co.
 Weston, 1,121: McCormick Distilling Co.
 Washington, 6,756: Washington Distilleries, Inc.

New Hampshire: Newmarket, 2,640: United Distillers of America, Inc.

New York:

Peekskill, 17,311: The Fleischmann Distilling Corp.
 Yonkers, 142,598: United Distillers of America, Inc.

Ohio:

Cincinnati, 455,610: National Distillers Products Corp.
 Cleveland, 878,336: Siegfried Loewenthal Co.
 Bedford, 7,390: Carstairs Bros. Distilling Co., Inc.
 Wooster, 11,543: Cedar Valley Distillery, Inc.

Oregon: Clackamas: Oregon Brandy Distillery Co. (Carver).

Pennsylvania:

Philadelphia, 1,931,334:
 Continental Distilling Corp.
 Siboney Distilling Corp.
 Broad Ford: A. Overholt & Co., Inc.
 Schenley: Joseph S. Finch & Co., Inc.
 Large: A. Overholt & Co., Inc.
 Kelly Station: Logansport Distilling Co., Inc. (Logansport).
 Ruffs Dale: Dillinger Distilleries, Inc.
 Manor: Manor Distilleries, Inc.
 Linfield: Kinsey Distilling Corp.
 Glen Rock: Foust Distilling Co., Inc.
 Meyersdale, 3,250: Frantz Distillers, Inc.
 Brownsville, 8,015: Park & Tilford Distillery, Inc.
 Archbald, 8,296: Mid-Valley Distilling Corp.
 Schaefferstown: Penndale Distilling Co.
 Meadville, 18,919: Meadville Distilling Co.
 Tunkhannock, 2,161: Old Clover Distilling Co. (Aldovin).
 Elverson: The Elverson Distilling Co., Inc.

South Dakota: Yankton, 6,072: The New England Distilling Co.
Tennessee: Lynchburg, 390: Jack Daniel Distillery, Lem Motlow, Prop. Inc.
Virginia:

Dumbarton: Virginia Distillery Corp.
Richmond, 193,042: Old Dixie Distilling Co. (Falling Creek).
Sunset Hills: A. Smith Bowman Distillery.
Belle Meade: Belle Meade Distilling Corp.

Wisconsin:

Crandon, 2,000: W. B. Gambill Distilling Co.
Cedarburg, 2,245: Cedar Creek Distillery, Inc.

Mr. MASON. And the result was that these people were totally thrown out of employment.

We feel that that was not the intent of Congress when they enacted that legislation.

And yesterday I believe that Under Secretary Brannan testified that he was not going to prohibit the transfer of grain from one plant to another. So if that is the case, our objection there is wiped out. But at the same time, we feel that there should be some safeguards put in legislation that is enacted by Congress so that this does not happen again.

What we suggest is that if it is necessary to continue the control of grain in the distillery industry, that the following safeguards be provided for in the law:

That labor be consulted in setting up the mechanics of any formula designed to allocate grain in this industry.

Our purpose is to try to work out a plan that will minimize the unemployment situation, that will not cause too much hardship on our people.

Secondly, we say that the formula should be designed to take into consideration the employment problems, particularly in small communities and hardship cases, and that it be designed on a fair and equitable basis, and that no particular industry or part of the industry will be discriminated against, and that the transfers of grain from one plant to another be prohibited.

That is the only recommendation that we have, Mr. Chairman, and we do not question the continuation of control of grain in this particular industry if the committee sees that it is needed, and that Congress enacts legislation to that effect, but we do hope that you will follow out and try to safeguard the workers that are going to be most vitally affected by any legislation that is enacted, because I think that they are more concerned than the distillers or anyone else, because the distillers are not going to lose money, because if they start to lose money, they are going to increase the cost of their product and the public is going to pay. But the workers are the ones to stand the loss. They lose their jobs, and many of them have been working in that industry for several years, and they have no other trade, and they are just handicapped as far as finding new employment is concerned.

Senator FLANDERS. Mr. Mason, we thank you for presenting your case and making your specific request, which we will take into consideration.

Mr. MASON. Thank you.

Senator FLANDERS. There are two documents which we will put into the record. One is a statement of the Associated Tavern Owners of America, and the other is a statement by Mr. Charles E. Sands, legislative agent of the Hotel and Restaurant Employees.

I had also promised that if anyone representing the WCTU should wish to put in a statement, we will be glad to have them do so.

We will insert that statement from them here, together with the other two.

(The statement of the National Woman's Christian Temperance Union is as follows:)

To the Members of the Joint Committee:

As your chairman has stated, this is a problem of conserving grain for food, and not of prohibiting the use of alcoholic beverages. In fact, it seems to us a little absurd to imply that any bill which has been before either the Senate or the House Committee on Banking and Currency dealing with this subject could by any stretch of any imagination except the distillers—which always runs to prohibition, perhaps because of their uneasy consciences—have been construed as a prohibitory measure. Certainly they would not be accepted by my organization as prohibition measures, and when we wish to come to you asking for prohibitory bills, you will have no difficulty in recognizing them as such.

As one of the great women's organizations concerned with the welfare of women and children, and with the establishment of a Christian peace throughout the world, however, we do come to you begging for the preservation of America's grain supply at this crucial time. We are a member nation and founder of the World's Woman's Christian Temperance Union, which grew out of the response of the heart of Frances Willard to the problems of Chinese women who were being separated from their husbands and whose homes were being broken up by our Chinese exclusion laws.

There are 55 nations represented in the World's WCTU, and from our sisters over the seas there come to us expressions of gratitude for what America is doing, and pitiful cries for bread for their children. Their problem is one that must of necessity continue until there can be another harvest. Europe last year had the winter that we are experiencing here this year. Hundreds of thousands of sheep and cattle were caught in the snow in countries that had no barns and perished. The harvests were bad. You have heard from those who have been carrying relief to them from the church organizations, and some of you have seen for yourselves, what the conditions are over there. I do not need to take your time enumerating them.

There is also the problem of America's future relations in the world. You can build a better defense for this country through the good will of our fellow nations in the world, than by burdening its people and lowering the American standard of living by imposing compulsory military training or raising great armies. Remember the bread that came back to us on the waters from our fair dealing with China at the time of the Boxer Rebellion.

How will you justify America to the world, how can we hold up our heads as a Christian nation if we turn from the cry of the hungry and the world's great need, to pour vital, irreplaceable grain down the already overstuffed gullets of a greedy and irresponsible distillery traffic?

You have heard their own representatives testify that the farmers at home have responded to the President's appeal by marketing their cattle under weight and cutting down on their flocks and herds. How will you justify to them this sacrifice, if they have to ask you: "We did our part as Christians and as citizens. Are you rewarding us by letting people who only pretended to give something, but really used up 8,000,000 bushels of grain in less than a month compared with a previous average of 5,000,000 bushels, take advantage of our sacrifice to give nothing, and then to come into the market and run up the price of our feed?"

The distillers had on hand as of the end of December 1947, 456,366,397 tax gallons of whisky, as compared with 391,596,917 tax gallons at the end of December 1946; and 40,492,027 tax gallons of spirits as compared with 26,264,406 tax gallons as of the end of December 1946, according to the statement of the Alcohol Tax Unit of the Treasury Department released on February 9, 1948.

Following is a record of the amount produced by them each month through November 1947, as compared with their withdrawals. These figures are from the Survey of Current Business, issued by the Department of Commerce, for January 1948. Consider them in the light of statements in the Survey for July 1947, that liquor-store sales had dropped from "only 7 percent above the calculated values in the first half of 1946" to 7 percent below the first half of 1947; and that "recent figures on Federal tax collections at night clubs, cabarets, etc., show a

continuation of the decreases that had begun in the middle of 1946," in the January 1948 issue:

	Produced	Withdrawn		Produced	Withdrawn
DISTILLED SPIRITS			WHISKY		
January.....	38,495,000	12,511,000	January.....	24,674,000	5,860,000
February.....	38,702,000	10,073,000	February.....	21,434,000	4,635,000
March.....	32,747,000	9,806,000	March.....	19,272,000	4,559,000
April.....	27,568,000	8,647,000	April.....	17,201,000	4,442,000
May.....	21,854,000	6,130,000	May.....	14,143,000	3,185,000
June.....	16,429,000	6,039,000	June.....	9,932,000	3,280,000
July.....	13,726,000	5,650,000	July.....	7,197,000	2,975,000
August.....	14,187,000	7,171,000	August.....	7,229,000	3,372,000
September.....	22,218,000	8,639,000	September.....	9,732,000	4,258,000
October.....	39,559,000	16,497,000	October.....	9,732,000	7,770,000
November.....	7,735,000	16,030,000	November.....	56,000	7,819,000

The picture they paint is the storing up, in a declining market that is continuing to decline, of a great surplus of stock which even they themselves cannot make use of in their own business.

Under those circumstances, do you think it is the part of wisdom to permit them to carry on this process, when our economy at home is being threatened by high prices, and it is only a short time ago that farmers were being forced to drown or burn baby chicks and break up their herds for lack of grain, even if you do not care—and I am sure you do—that children in Europe must die if our grain is wasted just at this time.

Very respectfully,

ELIZABETH A. STUART

(For the National Woman's Christian Temperance Union.)

(The statement of Associated Tavern Owners of America, Inc., is as follows:)

Gentlemen of the committee, in this hearing on the subject of grain control and allocation, it is desired to enter an appearance on behalf of the membership of the Associated Tavern Owners of America, Inc. This association is composed of tavern and restaurant owners in Illinois, Michigan, Nebraska, New Jersey, North Dakota, Wisconsin, and the city of Philadelphia. The following associations are affiliated:

- Illinois State Retail Liquor Dealers Association.
- Michigan Table-Top Licensees' Congress.
- Nebraska Beer & Liquor Retailers' Association.
- Tavern League of Wisconsin.
- Wisconsin Tavernkeepers' Association.
- Chicago Tavern Owners' Association.
- Philadelphia Retail Liquor Dealers' Association.
- Cass County Liquor Dealers' Association of North Dakota.
- New Jersey Tavern Association.

The Associated Tavern Owners of America are not in a position to come before the Congress and express an opinion as to whether there should be control and allocation of grain to all users, but as that segment of the alcoholic beverage industry having the greatest number of individuals, we are in a position to state an opinion on any proposed legislation which would single out that industry for special treatment.

A review of the several bills now pending in both the House and Senate reveals that almost all of them would set the alcoholic beverage industry separate and apart from all other users. Such discrimination goes beyond the proper fields of regulation and amounts to a restriction on the franchise of the alcoholic beverage industry—a franchise that was granted by the American people. Our association believes that if this franchise is to be limited or withdrawn, that it must be done by the American people themselves or by the States, under the constitutional powers which the people have granted to them.

House Joint Resolution 284, H. R. 4626, and S. 1842, in its original form, all provide for prohibition, Resolution 284 being an outright prohibition of the distillation of grains for beverage purposes, and H. R. 4626 with its exact counterpart in the original S. 1842 provides absolute prohibition unless its provisions are

lifted by a positive act of the Congress or the President. With such a statute on the books a President, susceptible to dry pressure or a senatorial filibuster, could prolong this legislative prohibition for the life of the act.

The political prohibitionists have claimed for some time that national prohibition could be attained by some device other than a constitutional amendment and bills of this type could accomplish what they are trying to do. These prohibition bills which masquerade as regulatory measures are contrary to our general system of laws. Under our system, a man is innocent until proven guilty—a legal industry is allowed to operate until reason is found for regulation. This type of bill provides for the opposite—a man is guilty until proven innocent—an industry is shut down until and unless some person or group of persons makes a positive finding of fact that it should be allowed to operate.

The Associated Tavern Owners of America ask that this committee, in its deliberation of types of control, eliminate at the outset any type of bill which, as those mentioned above, would first prohibit the use of grains for the manufacture of alcoholic beverages and then allow such use upon a positive finding of fact that there was a surplus of grain over all other uses.

The other type of legislation now pending before the Congress, such as House Joint Resolution 294 and others which merely extend the term in which the executive department may allocate grain for the manufacture of alcoholic beverages, are eminently more fair than the prohibition measures referred to, but they are still measures which would set apart a legal industry for special discrimination.

The members of the Associated Tavern Owners of America recognize that there is a problem facing the country in issuing to all users of grain and grain products their reasonable share of existing supplies. But in order to accomplish this reasonable sharing, the basic legislation must be fair and reasonable, and the administrative acts under that legislation must have the same degrees of fairness. This association believes that to single out a particular industry and subject it to the uncontrolled whims of an administrative agency is not fair and reasonable.

The commodity with which we are dealing in this instance is one that is constantly under attack by a highly organized and vociferous minority whose adherents rush to the attacks as zealots. It is only natural that such persons are to be found in administrative agencies or that persons are to be found in administrative agencies who are susceptible to the pressures of this minority group. Thus, to set apart for special control an industry such as this is to expose it not to reasonable regulation but to discriminatory and repressive measures not designed to solve the problem of grain scarcity, but rather to eliminate an industry approved by a majority of our citizens. It does not seem reasonable to operate a grain-conservation plan by singling out one of the smallest users, particularly in view of the fact that a decrease in this small amount has a direct effect upon the livelihood of thousands of individuals.

Our association believes that if this committee finds that control and allocation of grain is necessary that it should propose legislation which will allow just and reasonable allocation, but which will limit the executive branch of the Government in such a way that the industry cannot be subjected to unreasonable and arbitrary decisions of persons having a personal animosity toward this industry.

In this connection, the attention of the committee is invited to H. R. 4987, which is a bill which would extend the powers of the President in the matter of the control and allocation of grain for beverage purposes, but which protects this industry from arbitrary and unreasonable administrative acts by placing a limit beyond which the executive branch cannot go.

Tavern and restaurant proprietors are not in a position to give an opinion as to the extent of these limitations. Such opinions, of course, come better from the producers themselves. If the necessities of our country are such that we must allocate grain to the users thereof, the members of our association stand ready to bear their fair share of the burden, but they oppose vehemently prohibition measures masquerading as regulation and any measure which would single out this industry for special discrimination.

In closing, the hope of the tavern industry is expressed that this committee and the Congress will finally and definitely act on this proposition of grain allocation at this time. Proprietors of taverns and restaurants represented by this association are, almost without exception, small businessmen. They devote their full time to their businesses, which are not investments, but are their means of livelihood. They operate on limited capital and during the past several months have been operating on decreased gross revenues of from 25 to 40 percent. Thus it is that their inventories must be strictly controlled.

It cannot be overemphasized that their inventory control may mean the difference between success and failure. For the past several months they have been faced with temporary control, threat of further controls, and even threats of the complete elimination of the production of beverage spirits. It has, therefore, been an impossible task for them to apply the general rules of business to the maintenance of their inventories. We, therefore, respectfully urge the Congress, through this committee, to definitely and finally decide the matter so that thousands of small businessmen can have some tangible definite facts upon which to base their business plans.

Respectfully submitted.

ASSOCIATED TAVERN OWNERS OF AMERICA, INC.,
By RALPH E. CURTISS, *Washington Counsel.*

Mr. SANDS. I am Charles E. Sands. I represent quite a large organization, and I thought I had the privilege of about 3 minutes. It is not satisfactory to us that the statement go into the record. We want opposition made known publicly.

Senator FLANDERS. I am afraid we have to go. We have engagements again at 2 o'clock which we cannot escape, and I am afraid you will have to be satisfied with having this in the record, and with the assurance on my part, at least, that I will read it.

(Mr. Sands' statement follows:)

STATEMENT OF CHARLES E. SANDS BEFORE JOINT SUBCOMMITTEE ON ECONOMIC
REPORT ON GRAIN ALLOCATION

Mr. Chairman and members of the committee, my name is Charles E. Sands, 4211 Second Street NW., Washington 11, D. C. I represent the Hotel and Restaurant Employees and Bartenders International Union. We are affiliated with the American Federation of Labor and with the Railway Labor Executives Association.

We are vitally concerned with any movement to shut off or to curtail the use of grain for distilling purposes; that we be alert to any proposition fostered in part by the WCTU and prohibitionists generally is one of the reasons that our international union keeps a representative on Capitol Hill.

The record of our international prior to the enactment of the eighteenth amendment, during prohibition, and since the repeal of the eighteenth amendment is quite well and favorably known.

Our record prior to the recent war, during the war, and since is likewise well and favorably known.

We, as well as the American Federation of Labor, favor the Marshall plan. We believe in sharing our grain, foods, and any other spareable goods to rehabilitate western Europe. We realize the seriousness of the present situation and want to help, but we want to be quite sure that, in helping, industries that are necessary—legal—and of which we are indirectly a part, are not destroyed in the process.

We are the purveyors of the products manufactured or processed by the distillers; we are the ones who have to satisfy the consumer. We have always had prohibitionists; no doubt we always will. They no doubt realize quite well that to reenact such a law as the Volstead Act is now out of the question. They have therefore adopted other means to accomplish their purposes. We want to be sure that this is not one of them.

I heard the representatives of the distillers testify before the House Banking and Currency Committee last week that they would go along on any fair plan to save grain if all users were likewise curtailed. We hear pleas on the radio by users of grain, "Seifid in box tops quickly so you can get so and so," and we find the shelves in the groceries empty because the people need the products; quite likely they need the box tops.

Have we taken into consideration how far the countries to be helped have curtailed their use of grain for the manufacture of spirits, etc.? That question might be answered—in fact, I believe that it has been answered—that those countries need to export or their national economy would seriously suffer. Well, their brands shipped here are in competition with American brands. I wonder if their brands are made out of our grain and will this affect our own national economy?

The proponents before the House Banking Committee said we have a 6-year supply of beverage alcohol; the representatives of distillers, I think, testified about 11 months' supply.

By interfering with the normal release of alcoholic beverages it will have a tendency to create a scarcity with the inevitable raising of prices, or people buying and storing their favorite brands, resulting in more people becoming users of foreign brands, and notwithstanding the fact we make in this country better brands, including scotch. When this is all over, could the American distillers and processors regain their clientele?

It was clearly demonstrated during prohibition that the successful operators of hotels required the handling of alcoholic beverages. If anyone doubts this statement, they have only to check the records, and they will find that a number of large hotels in this country went bankrupt during this period, resulting in great losses to stockholders, many of them widows and pensioners.

Yes; we are interested, and knowing the tactics used by the WCTU and the prohibitionists, we ask the committee to consider if these organizations are not trying to promote the entrance of prohibition via the back door.

Respectfully,

CHARLES E. SANDS,
Legislative Agent (Registered).

Senator FLANDERS. We also have a statement here from Mr. Stephen G. Cary, who is former relief commissioner for the American Friends Service Committee, and we will have that made a part of the record at this point.

(The statement of Mr. Cary is as follows:)

I have recently returned from 18 months' service in Europe as commissioner for the American Friends Service Committee in charge of European relief operations. In this work I spent much time in England, France, Italy, Switzerland, Austria, Germany, Poland, Finland, Norway, Sweden, Denmark, Holland, and Belgium. This experience has, I believe, given me a rather comprehensive picture of food needs in western and central Europe.

I will not, however, dwell at length upon these needs, for they have already had much attention and the facts are fairly well established. It seems clear to me that we cannot hope to build faith in our democratic way of life among peoples whose food level is reduced to anywhere from 800 to 1,500 calories a day, particularly when these people know about the food levels which exist in the United States today. Everywhere in my travels, and particularly in central Europe, I found people becoming increasingly discouraged at the lack of any improvement in their hopelessly inadequate rations. I was sorry to find, too, a growing feeling that the United States was betraying these people by failing to live up to promises of help.

Recent reports from American Friends Service Committee field workers give details of the low food levels in many parts of Europe. In the American zone of Germany the actual level of calories consumed per person per day is reported to be 1,300; in some places in the zone it goes as low as 1,080. In the British zone the actual calorie level is reported as 1,150, but figures as low as 880 to 900 calories have been reported from this zone. The French zone of Germany is apparently the worst off, the figures coming from there indicating that in many industrial areas a daily level of 900 calories per person is not uncommon. Reports from Austria reveal the actual number of calories consumed per person per day are "considerably less" than the official figure of 1650. In Hungary, reports show the daily number of calories per person to be about 1,400. In Poland, reports differ by area; recovery has been achieved to a fairly high degree in certain undamaged rural areas, but in other less fortunate areas a daily level of 1,200 calories per person has been reported.

The point I want to stress, however, is that this feeling of European despair and bitterness is greatly increased by reports that United States grain is being diverted into channels other than for essential human consumption. It is hard enough to explain to Europeans why grain shipments to Europe must be curtailed because of crop failure, lack of shipping facilities, and so forth. But it is impossible to justify low shipments when the grain exists, when shipping facilities are available, and when the grain is being diverted to noncritical domestic use.

It should be recognized that such grain diversions are widely publicized in Europe by certain interests seeking to sap America's influence. I remember

particularly the cartoons and articles prominently published in France, Germany, and Poland, after reports that American farmers were feeding vast quantities of grain to their livestock in the summer of 1947. This same kind of publicity will certainly appear if we now fail to curtail the amount of grain going into the production of alcoholic beverages. I believe that this kind of publicity does great damage to America's reputation and plays an important role in undermining the confidence of Europe's hungry in the leadership of the United States.

Senator FLANDERS. We also have a letter addressed to me from Mr. Charles Luckman, which we will make a part of the record at this point.

(The letter from Mr. Luckman is as follows:)

FEBRUARY 5, 1948.

HON. RALPH E. FLANDERS,

United States Senate, Washington, D. C.

MY DEAR SENATOR FLANDERS: In response to your request I am giving you a brief statement as to the understanding which the Citizens Food Committee reached with the distillers.

At a meeting with the distillers during the early part of October, it was agreed that the desperate plight of the hungry in Europe necessitated prompt and vigorous action. As a consequence, arrangements were made for all distilleries to close down for a 60-day holiday commencing October 25, 1947. At that time I transmitted to the distillers assurances that they would not be called upon for an extension of the complete shut-down, but that, depending upon the grain shortage, the industry might, at the end of the 60-day shut-down, be called upon to reduce their consumption of grain.

Sincerely,

CHARLES LUCKMAN.

Senator FLANDERS. The hearing is adjourned.

(Thereupon, at 1:30 p. m., the hearing was closed.)

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