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Vol. 1

# The United States Senate

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Report of Proceedings

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Hearing held before

Committee on Finance

S. J. Res. 100

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October 4, 1945

Washington, D. C.

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Thursday, October 4, 1945.

United States Senate,  
Committee on Finance,  
Washington, D. C.

The committee met at 10:30 o'clock a. m., pursuant to call, in room 312, Senate Office Building, Senator Walter F. George (Chairman) presiding.

Present: Senators George (Chairman), Bailey, Gerry, Guffey, Johnson, Lucas, La Follette, Vandenberg, Butler, Millikin, and Hawkes.

Also present: Senators Fulbright and Capehart.

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The Chairman: We have for consideration S. J. Res. 100.

(S. J. Res. 100 is as follows:)

The Chairman: Mr. Johnson, will you come around, please, sir? Just have a seat there, if you will.

Senator Butler advises that you are interested in this matter and have some knowledge of the practical question involved. We will be glad to hear from you.

STATEMENT OF GEORGE E. JOHNSON.

The Chairman: Where is your home, Mr. Johnson?

Mr. Johnson: Hastings, Nebraska.

The Chairman: And whom do you represent?

Mr. Johnson: I am representing the Nebraska Public Irrigation and Power Districts, consisting of approximately a million acres of irrigated land. I also am chief engineer and general manager of the Nebraska set-up of irrigation districts. In addition to that, I am president and general manager of the Farm Crops Processing Corporation at Omaha to use surplus crops and damaged crops. To assist in the war effort, we constructed an alcohol plant at Omaha with funds of the Defense Plant Corporation. We have been operating that plant and have produced approximately 25,000,000 gallons of alcohol, about 50 percent of which was produced from damaged grain that would not have been used for any other purpose had it not been processed through the alcohol plant.

We now have a situation where the Government no longer needs or at least they do not need at this time alcohol from this plant for carrying on the rubber program, as they

have a stockpile that they are drawing their supplies from. And we have some 50,000,000 bushels of potatoes which the Government has paid for or is paying for that are surplus. We have worked out a proposition with the Department of Agriculture where we can use some seven to eight million bushels of these potatoes in our plant at Omaha and other distillers are working on the same problem. We can use up these surplus potatoes in making syrup.

Senator Bailey: This resolution doesn't relate only to surplus potatoes. It is a general bill.

Mr. Johnson: Yes.

Senator Vandenberg: Where are those potatoes produced; in your section?

Mr. Johnson: There are some 50,000,000 from Nebraska and there is a surplus in northeastern Colorado and a surplus in Minnesota, all of which is within about a 37 cents per hundred freight rate area. and we can expect to draw our principal supply from those areas.

Senator Vandenberg: Is there a similar situation in other surplus potato areas?

Mr. Johnson: Yes.

Senator Vandenberg: Are these alcohol plants available in other areas?

Mr. Johnson: The eastern section, I think, is going to be taken care of by the Publicker plant at Philadelphia.

I have talked with some of their representatives and I know that they have been working with the Department of Agriculture on shipping in potatoes to that plant.

Senator Vandenberg: What about the Michigan situation, where we have a large production and a large surplus? Is there any such facility there?

Mr. Johnson: You have an alcohol plant at Trenton Valley that should be able to take care of a large part of those potatoes but I don't know just what their contacts have been and what they are doing.

Senator Guffey: Answering your question, Senator, the Publicker bought all the surplus potato crop in Maine, New York, New Jersey, and Pennsylvania. They are going to treat them at their plant in Philadelphia. Millions of bushels have already been contracted for. My position is that I want for that concern the same privileges and rights that are given to the plants covered by this bill. Those rights and privileges do not exist in this bill as drawn. I understand there is no objection.

Senator Vandenberg: We would want the same privilege for the Michigan producers.

Senator Guffey: Certainly.

Senator Bailey: Admitting everything you say, what are you going to do about putting the United States into a business of this sort, Mr. Johnson?

Mr. Johnson: We are not putting the United States Government into this business, Senator. We are a private corporation. We are paying the same taxes and operating under the same conditions as all other private corporations in the United States. We have this plant leased the same as other operators have Government plants leased and we are operating the plant under a lease and paying the Government the lease payments.

Senator Bailey: The title of the bill reads: "Permitting federally owned alcohol plants to produce sugars or sirups simultaneously with the production of alcohol." It doesn't say anything about somebody leasing a plant.

Mr. Johnson: We have this plant leased and have had since it was constructed.

Senator Bailey: The bill would put the Federal Government into the business of making sirup. We have got a great many surplus plants all over the country. Here is a plant that has been manufacturing tanks, for instance. Shall we permit the Federal Government to take over that plant to manufacture farm machinery?

Mr. Johnson: From the time we began operating this plant the Federal Government has had nothing to do with its operation excepting as they have allocated materials to us for use, which is the same proposition that has existed with all other plants making alcohol. The fact is that we have

been paying the Federal Government approximately 25 percent per year of the investment on that plant as rent.

Senator Bailey: That is a different proposition from what is contained in the bill. The bill permits the federally owned plants to manufacture sirup.

Senator Butler: Senator, I don't know who is the author of the bill itself, but I am certain there is no objection on the part of anyone to an amendment that would give the same privilege to others.

Senator Bailey: That is a matter of releasing or selling the plant. We go then to the question of permitting a man who has been manufacturing alcohol to have a side line in sirup.

Senator Butler: Yes.

Mr. Johnson: I think, Senator, that there is quite a bit of misapprehension or misunderstanding about placing the Government in business with these plants owned by the Government.

Senator Bailey: There is no misunderstanding about this bill.

Mr. Johnson: It certainly wasn't the intention of the people who drafted the bill to place the Government in business. It simply was to permit the manufacture of sirup in plants that are owned by the United States Government. We have no objection to making that open to all plants that are manu-



facturing alcohol.

Senator Bailey: You have the same situation where the Government sells the plant cheap and puts the private manufacturer in a bad position. He didn't buy his plant cheap. He built it. We have got that problem now in regard to the ships. It is a difficult question.

Mr. Johnson: Well, in answer to that statement, we are paying a rent equivalent to 25 percent of the total cost of the plant for the use of it to manufacture sirup. That is our present agreement and we propose to continue under our present agreement.

The Chairman: With respect to the plants that are wholly federally-owned, you have the surplus property disposal agencies here now. Is this to get the provisions of the law changed so that you can make whiskey and this sirup in the same plant at the same time; is that the purpose?

Mr. Johnson: That is the only purpose of it, Senator.

The Chairman: That is the only reason why this committee would have anything to do with it.

Mr. Johnson: That is the only purpose of the bill.

Senator Vandenberg: Mr. Chairman, I would like to ask Mr. Johnson one further question.

While the bill seems to emphasize sirups, it also identifies the production of sugars. Now, you have a substantial beet sugar industry in Nebraska. Is there any collision

between your proposal and the ordinary sugar production facilities of the country?

Mr. Johnson: Senator, we produce 65 percent sugar sirup. That can be used for most any purpose that you use sugar in a liquid where you don't need crystal sugar. There is a shortage at this time of two billion pounds a year of this sirup. We can produce about 10 percent of that shortage in this one plant.

Senator Vandenberg: There is a shortage of sugar also at the moment.

Mr. Johnson: Yes, sir.

Senator Vandenberg: But that is temporary and this legislation is permanent. What have you to say as to whether there is any collision in normal times between your proposal and the normal sugar producers of your area who find themselves under limitations by the Government in normal times?

Mr. Johnson: I would say there wouldn't be any conflict because we can't manufacture sugar. We can manufacture sirups.

Senator Vandenberg: Does not beet sugar go into sirups in some places, or does it? I don't know.

Mr. Johnson: It does. Beet sugar is used in soft drinks and for a great many other uses.

Senator Vandenberg: Then you are creating a competitor for the beet sugar industry, are you not?

Mr. Johnson: I wouldn't say we are creating a competitor because it costs more to make this sirup per pound of sugar in the sirup than it costs to make beet sugar or cane sugar. So that at a time when the situation balances out, where there is plenty of sugar, we will go back to making alcohol.

Senator Vandenberg: That is a different story. This is permanent legislation. There is no limitation on it, is there?

The Chairman: No, there is not.

Senator Vandenberg: I would grant you that at the moment this competitor factor would be of no moment but I would think over the long haul it might be a very important competitive factor. At any rate, I would like to know about that.

Mr. Johnson: Well, the way we have considered this bill is that we would be making sirup for probably two years. We don't see that there is going to be any surplus in sirup at least for two years.

Senator Vandenberg: Then you wouldn't object to having the legislation expire in two years?

Mr. Johnson: No.

Senator Bailey: I think before we approve it we should hear from other concerns.

Senator Vandenberg: I do, too.

The Chairman: Are there any further questions?

Senator Bailey: We all know that there is one thing cer-

tain about sugar and that is that there will be a surplus as soon as we get into normal peace time conditions. Sugar will go down, too, three or four cents a pound. That is one of the troubles about sugar.

The Chairman: You mean in the world market?

Senator Bailey: Yes.

The Chairman: But we don't make enough sugar for our domestic market.

Senator Bailey: We never have.

Senator Vandenberg: That depends upon what you call our domestic area. If you take in the Hawaiian Islands and the Philippines, we make a lot of sugar.

The Chairman: Mr. Johnson, as I understand this bill, what you want to do is to get the law so amended that sirup and sugar may be made in the wholly-owned federal plants concurrently with the making of alcohol?

Mr. Johnson: Yes. We have no objection to striking out the word "sugar".

Senator Butler: Mr. Chairman, this was the outgrowth of the problem that faced us in the handling of the surplus potatoes. Arrangements were already made for the conversion of the Omaha plant, and I think quite a number of others, for the use of some surplus potatoes for the production of sugar. After they got about so far, they ran into the provision whereby the manufacture of sirup is prohibited in the dis-

tilleries. This was proposed in order to legalize the manufacture of sirups. I think a temporary arrangement is just as satisfactory.

Senator Bailey: You are one of the sponsors of the bill?

Senator Butler: Yes.

Senator Bailey: Do you have reference to sweet potatoes in the bill?

Senator Butler: It would apply to any surplus grain.

Senator Bailey: Well, make it permanent, put us up a whiskey distillery down in North Carolina, and I will do a land office business in sweet potatoes.

Senator Lucas: Your potato crop is an emergency crop, is it not?

Senator Butler: Yes.

Senator Lucas: Unless you get this legislation immediately, you are going to lose, as I understand, a good many million bushels of potatoes, unless something can be done with them?

4- Mr. Johnson: That is right. There is between 50,000,000 and 60,000,000 bushels of potatoes now that the Government has purchased and that is in excess of any storage facilities that we have in the United States.

Senator Lucas: I wouldn't put the Government in competition with private concerns but if it is a temporary arrangement, perhaps for a couple of years, in order to take care of a

perishable crop, why, it seems to me that it is just and wise legislation. Especially -- I don't know much about it -- but especially in view of the need throughout the world, as is said, for this particular product. I don't think we should hold back for a moment and not permit these potatoes to be used in this way if this is the only way they can be used.

Mr. Johnson: We are faced with this additional situation. We have had freezing weather in Nebraska and western Iowa, down to 21 degrees. We are going to have at least 25 percent, in that area, of soft corn, that must be moved soon. That is coming in on top of these potatoes. Now, the plant at Omaha has two lines of production. We can run alcohol from the corn and sirup from the potatoes. People like Publicker have several lines of production. So unless we are permitted to make sirup and alcohol at the same time, it means that you must go a hundred percent from one to the other. You don't have the opportunity to carry along your customers and you lose your business by going into a different line. You lose your alcohol business when you go into the sirup line.

So it is a question, in order to get into this proposition and handle it economically, we should be permitted to make both sirup and alcohol in the plant at the same time.

Senator Vandenberg: Is your 50,000,000 surplus figure a

national figure or is that a regional figure?

Mr. Johnson: That is the figure given me by the people handling potatoes in the Department of Agriculture.

Senator Hawkes: I have a later figure. There was a crop 443,000,000 bushels of potatoes, which left an absolute surplus of 60,000,000 bushels.

Senator Vandenberg: That is a national figure?

Senator Hawkes: Yes.

Senator Vandenberg: That is what I was talking about, a national figure.

Senator Hawkes: That is the national over-all figure.

Senator Vandenberg: Isn't there some other arrangement for taking care of the surplus? Has not Mr. Lehman agreed to handle some of it?

Senator Hawkes: He has agreed to put in \$5,000,000 out of UNRRA if he gets the money from Congress and that \$5,000,000 will be the total over-all for the purchase of potatoes, the transportation and the purchase.

Senator Vandenberg: How many bushels will that be?

Senator Hawkes: That wouldn't be very many. What they are trying to do is this. The Government has the support price. The Army has got the contracts which they have cancelled for the dehydrated potatoes. They have got to pay a certain amount in the cancellation. The Secretary of Agriculture, the Secretary of War, and UNRRA are working together to see how much each

Department will have to pay and are trying to fit that whole thing into the picture. I heard yesterday, from the Secretary of Agriculture, that Belgium, for instance, is interested in 20,000,000 bushels of potatoes. You were there, Homer, and know about that.

Senator Capehart: Yes.

Senator Hawkes: Twenty million bushels. Now, I think it will be a crime if we let this foodstuff, in a starving world, be frozen or rotted by reason of ineffective methods of preservation.

5 I came in, Mr. Johnson, as you were talking about the cold weather in Nebraska and Iowa. Well, we are always likely to encounter conditions of that kind. We have 11,000,000 bushels of surplus potatoes in New Jersey. The growers were urged to plant potatoes. Now, that is where the dehydration process comes in. We ate dehydrated potatoes throughout Europe. All those potatoes we had, Homer, in Europe were dehydrated. They are all right. They are a little dark on account of certain things in the water over there, but they were not bad. And they are a foodstuff. So that 60,000,000 is the over-all picture.

Senator Vandenberg: Has the dehydration of potatoes stopped?

Senator Hawkes: Yes. The contracts were all cancelled. As a result, it left these people high and dry.



Senator Vandenberg: I don't know why we shouldn't appropriate potatoes instead of money to Europe.

Senator Butler: The Secretary of Agriculture has said that every place they offered potatoes in Europe, and elsewhere, they were turned down. They say they have all the potatoes they want.

Senator Hawkes: They say they have an inquiry for 20,000,000 bushels from Belgium now. I think it would be a crime if we were to let these potatoes freeze and rot and then wake up to find out that a starving world needs foodstuffs.

Senator Lucas: That is the point I had in mind. It is a perishable crop and it seems to me that we ought to take extraordinary measures to save it.

Senator Guffey: The surplus potatoes in New Jersey can only be sold to the public. They have contracted to take only about 100 cars a day.

Senator Hawkes: Did that happen recently?

Senator Guffey: Yes. They have no objection there to the bill but they want the same privileges of making alcohol and sugar.

Senator Hawkes: Alcohol and sugar is foodstuffs. I am not talking to that point. The point I was trying to bring out was as to the latest picture as I have it.

Senator Guffey: I think your figures are low. They are

compared to the figures I heard yesterday. I will check mine.

The Chairman: Suppose you come around, Mr. Berkshire, and we will see what the attitude of the Treasury is on this.

STATEMENT OF STEWART BERKSHIRE,  
DEPUTY COMMISSIONER, BUREAU OF INTERNAL REVENUE.

The Chairman: Mr. Berkshire, you have read the resolution?

Mr. Berkshire: Yes, sir.

The Chairman: What is the present law, just tell us that?

Mr. Berkshire: The present law, 2891, I think, of the Internal Revenue Code provides other business may be conducted on the distillery premises than that of distilling alcohol spirits.

The Chairman: What are the distilleries talked of in this resolution? Wholly federally-owned.

Mr. Berkshire: Well, that would include three plants.

The Chairman: How many have we got and where are they?

Mr. Berkshire: Crops Processing Corporation, Omaha, Nebraska; Grain Processing Corporation, Muscatine, Iowa; and the National Distilled Products Corporation, Kansas City.

The Chairman: Those are the three distillers?

Mr. Berkshire: Those are the three plants.

The Chairman: That are wholly federally owned?

Mr. Berkshire: I understand they are and that they have been leased by these three concerns.

The Chairman: And who owns them?

Mr. Berkshire: The Federal Government owns the property and built the plants and leases them. That is my general understanding.

The Chairman: Do you know what agency, through what agency, they built them?

Mr. Berkshire: Defense Plant Corporation.

The Chairman: Have they been declared surplus?

Mr. Johnson: They have not.

Mr. Berkshire: As I understand it, they have merely declared that they didn't need the amount of alcohol that all these plants were capable of producing.

The Chairman: But they still wish to retain them?

Mr. Berkshire: I can't answer that, sir.

Mr. Johnson: Our purpose is to work out this sirup proposition along with the manufacture of alcohol and purchase the plant at Omaha. That is our purpose and has been. We feel we will be in position then to purchase that plant.

Senator Vandenberg: Have you a purchase contract?

Mr. Berkshire: We have an operating purchase contract, yes.

The Chairman: What is the existing law? Is the existing law that no other business can be carried in any place where alcohol is made?

Mr. Berkshire: This statute was passed:

"No person shall use any still or other vessel for the purpose of distilling in any dwelling house, any shed, yard, or enclosure connected with any dwelling house, or aboard any vessel or boat or any building, or on any premises where beer, lager beer, ale, porter, or other fermented liquors, vinegar or other are manufactured or produced, or where sugars or sirups are refined."

8 In other words, since that law has been in effect a distillery or an industrial alcohol plant has never been permitted to be used for the manufacture or production of any other article simultaneously with the production of spirits.

Now, there is nothing to keep this plant from manufacturing all of the sirup they choose to manufacture. Under the present law they may not manufacture sugar and sirups simultaneously with the manufacture of alcohol. That is the only point, I take it, to this statute.

The Chairman: Does that statute refer to the government itself? Does the government use any of these plants for the purpose of producing alcohol for synthetic rubber or for any other purpose?

Mr. Johnson: These plants were built as a part of the rubber program. That is, the three plants in the Middle West. Expansion was done on a large number of private plants. In fact, a great many of your private plants are 90 percent

owned by the government. That was done for the purpose of increasing the alcohol production 500 percent for war purposes. The recommendation was made that these new plants be constructed in the Middle West where surplus agricultural crops existed so that they would be available to take care of surplus agricultural crops post-war.

The Chairman: But the plants were not operated by the government?

Mr. Johnson: They have never been operated by the government. They are operated under contract with private corporations.

Senator Lucas: What amount of alcohol are you producing at the present time in your Omaha plant?

Mr. Johnson: About 175,000 gallons a day.

Senator Lucas: What will happen if this legislation isn't passed?

Mr. Johnson: We can continue to make alcohol.

Senator Millikin: Did I understand the witness to say that he can also make sirup?

Mr. Johnson: Yes.

Senator Lucas: But you can't make alcohol and sirup simultaneously?

Mr. Berkshire: That is right.

The Chairman: What is the position of the Treasury on the resolution?

Mr. Berkshire: The Treasury has always felt, the Bureau of Internal Revenue has always felt that it is dangerous and that it is likely to jeopardize the collection of revenue if simultaneous operations are permitted, that our manner of protecting the revenues is such that it would complicate our collection considerably. We have gaugers in the plants whose business it is to supervise the production from the entry of the grains, from the time that the grain enters the plant, goes into the system, until the spirits come out. One of the ways for checking a plant like this for the amount of alcohol which they should be producing is to know at all times how much grain is going on the premises, so that we charge them with that grain, and we know that the grain is capable of producing just so much spirits. If there is a great variance, there generally is an investigation.

In other words, it is one of the checks. It would complicate supervision to have different types of manufacturing at the same time. So that always heretofore if they wanted to use an alcohol plant or distillery for some other purpose, they merely close out the alcohol business, they drain the system of the alcohol and take it off the premises, and something else is manufactured for a month or week or two weeks, or any time they might see fit to produce some other articles. Then they come back and bond their premises again to be reopened as an alcohol plant.

Certainly this would be a departure from anything that we have ever known and we are frankly afraid of it. It is a step in a direction that we think might jeopardize the revenue.

Senator Lucas: You are afraid of it from a revenue angle; is that right?

Mr. Berkshire: That is right.

Senator Lucas: You mean you will get more money from alcohol than from sirup?

Mr. Berkshire: The government wouldn't get any money from the sirup, that is right. We certainly have no purpose in wanting to hamper such a proposal as this but we believe that if they want to use these plants for the production of other articles than spirits and taxable articles, that they should not do it simultaneously.

Senator Lucas: The Treasury is not interested in saving perishable crops?

Mr. Berkshire: Yes, but we are responsible for collecting over a billion dollars in taxes a year through these plants, these and others. That is our job, certainly. It is from that point of view that I am viewing this whole thing, naturally.

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Senator Hawkes: Mr. Johnson, can you enlighten me on the process in producing the sirups? Do you go through the alcohol stage to get the sirup?

Mr. Johnson: In the manufacture of alcohol we use malt to change the starches to sugar or sirup and then we put in yeast and ferment the sirup into alcohol. Now, for this step we use a different system. We don't use malt. We use an enzyme that changes the starches to a sugar sirup and for that purpose the only additional equipment we need to install is filtering equipment to filter out the solids which go on for feeds. We purify the sirup after it goes through the first four stages of evaporation before we concentrate it into sirup.

Senator Hawkes: Then the government will get no revenue at all in the production of sirup?

Mr. Johnson: They get the revenue from the potatoes.

Senator Hawkes: But not from the alcohol?

Senator Butler: Tax revenue.

Mr. Johnson: They get no revenue from industrial alcohol either. They only get revenue from alcohol produced for beverage purposes. Up to date we have produced no alcohol for beverage purposes in Omaha.

Senator Millikin: Then what is the interest of the Treasury in your particular operation?

Mr. Johnson: We may be producing beverage alcohol and then the Treasury, as Mr. Berkshire said, are interested. They have men in the plants regardless of whether you are producing alcohol for beverage purposes or just alcohol.



They check the industrial alcohol plants just as carefully as the other plants to see that none of that alcohol gets away and is being used for any other purpose than that for which it is made.

Senator Millikin: Would it be practical for you to go in and out of bond, make sirup for three months and go out of bond for three months, if you want to make whiskey alcohol go back into bond? Is that a practical operation?

Mr. Johnson: For it to be economical to operate, and also to be practical, it is important to us at this time, it is necessary, to be able to make both alcohol and sirup in the same plant, because we go into the sirup business in proportion to the selling of the sirup and we go out of it in the same proportion, and we are able to maintain our customers on the alcohol production. If we out it off entirely, someone else picks up those customers on the alcohol production in the meantime. Then when we get out of the sirup business we are through for a while.

Senator Butler: This whole question of the manufacture of sirup from surplus potatoes resulted because the government quit taking the amount of alcohol that would keep your plant in operation; is that true?

Mr. Johnson: That was part of it, Senator, but the main reason we want to make the sirup is because there is a tremendous shortage at this time and the Department of Agriculture

in supplying these potatoes wants them used for the manufacture of sirup instead of alcohol. They want us to get into the manufacture of alcohol as quick as possible. We can use 60,000 bushels a day and make sirup and can also go into this soft corn situation and use about 16,000 bushels of corn a day and make alcohol out of it.

Senator Millikin: How many alcohol plants are there, private and public, over the United States?

Mr. Berkshire: Registered distilleries and industrial alcohol plants, 200.

Senator Millikin: They are all under your supervision?

Mr. Berkshire: Yes.

Senator Millikin: I see.

Mr. Berkshire: The law imposes the same responsibility on the Bureau of Internal Revenue to supervise the production of industrial alcohol as it does beverage alcohol, merely to see that it is properly used.

8 Senator Millikin: It has been suggested that the bill ought to be widened to include privately owned alcohol producing plants as well as governmentally owned plants. I was trying to get at the scope of your problem.

Mr. Berkshire: That is what we fear. If it was these three plants and no others, the situation might be different. But I do not see how you can distinguish between these three plants and the others. I don't see how you can stop permitting

the operation in all the distilleries, and we are very fearful that it would be a dangerous step.

Senator Bailey: Mr. Chairman, I am sorry that I have to leave. You can vote me against this proposition in any shape or form.

The Chairman: All right. We do have some nominations.

Senator Bailey: I will be for them if you are for them.

The Chairman: All right.

Senator Hawkes: Mr. Chairman, I would like to ask the witness this question:

If this bill were passed and you were allowed to use potatoes, at what price would you buy the potatoes, at the full price or the parity price, or what?

Mr. Johnson: Well, it takes four bushels of potatoes to equal one bushel of grain to make either alcohol or sirup. The present contracts, which have been submitted to us contain a provision of 55 cents a hundred pounds for the potatoes, which would be equivalent to \$2.20 a hundred for grain.

Senator Hawkes: How much would that be for potatoes per bushel, do you know?

Mr. Johnson: Well, of course --

Senator Hawkes: What is the going price of potatoes today per hundred pounds?

Mr. Johnson: The going price varies considerably. We had at Kearney, Nebraska a reduction of price of \$1.50 a hundred

in one day.

Senator Hawkes: That was because of surplus conditions?

Mr. Johnson: Yes, and the fact that we had a late spring. The early potatoes ran into the harvest of the late potatoes. The early potato has no support price and consequently the farmer has them on his hands to dispose of. That is in addition to this 60,000,000.

Senator Hawkes: What would the farmer think -- I have been listening to what he thinks, in another committee -- on this potato surplus what would the farmer think of the price that you are able to pay to convert into sirup? Would the farmer come back on the government to pay the difference between the parity guarantee and the price you could afford to pay? That is an important item.

Senator Butler: You buy your potatoes from the government?

Mr. Johnson: Yes.

Senator Hawkes: Then the government would have to take them off the farmer's hands and sell them to you?

Mr. Johnson: Yes, sir. The government pays this support price in the form of a loan. The farmer has his money. The government has the job of disposing of the potatoes.

Senator Vandenberg: It looks to me that this is solely a question of whether or not this is the only way to relieve the potato situation.

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Senator Guffey: Potatoes owned by the government.

Senator Vandenberg: I understand there is a witness from the Department of Agriculture. I think, therefore, that is the place to get our basic information as to whether or not this is the only way you can take care of the potato situation or whether or not there aren't better ways to take care of the potato situation.

The Chairman: We will get to him, Senator.

Senator Hawkes: Mr. Chairman, may I bring out this point, which bears on the point Senator Millikin brought out a moment ago, and which I think is important? You have a contract with the government under which you can buy this plant, is that right?

Mr. Johnson: That is right.

Senator Hawkes: Then if you exercise that contract with the government, that plant becomes a privately owned plant, does it not?

Mr. Johnson: Yes, sir.

Senator Hawkes: Then why wouldn't every other privately owned distillery in the United States want the same position established for it as is established for your plant?

Mr. Johnson: I think they should have it. For instance, the Publicker Corporation have \$12,000,000 of their plant constructed by Defense Plant Corporation funds and in large part the expansions to distilleries have been carried on by

DPG money which is government money, and the RFC now owns that portion of the plant, which they are anxious to sell, and in a great many instances the operator is anxious to buy.

So that the proposition of converting these plants to private hands is a question of keeping them in operation.

Senator Millikin: Mr. Chairman, may I ask a question, please?

The Chairman: Yes. Senator Millikin.

Senator Millikin: Is there any complaint by the operators of the other privately owned plants that these fellows operating under government leases, and who hope to buy these plants under purchase contracts, are getting their plants at an unfairly low price, thus working discrimination against the existing fellows?

Mr. Johnson: No. We are paying a much higher rate for the use of those plants than the carrying charges on any private plant. We are actually paying practically 25 percent of the cost of those plants per year, and that is wartime costs, as rent.

Senator Hawkes: You would buy it if you could?

Mr. Johnson: Yes.

Senator Hawkes: What Senator Millikin wanted to know, I think, is this: If you bought them, would you have the plant on a lower basis than the people who built their plants and

would you be in competition with them?

Mr. Johnson: We haven't seen anything yet in the way of a proposal and in the agreement we have to purchase that indicates that we would have this plant with the same amount of money that the private companies have. The costs would be excessive during wartime and up to the present time the RFO has taken no steps toward reducing the sales price of the plant below cost, after taking off depreciation during the operation of the plant.

Senator Hawkes: What is the rate of depreciation?

Mr. Johnson: It is 12 percent on equipment and 5 percent on buildings.

Senator Lucas: Will your plant continue to run whether you get these potatoes or not?

Mr. Johnson: Yes.

Senator Lucas: Full force?

Mr. Johnson: No, we will have to drop down to about 50 percent.

Senator Lucas: How many men do you employ now?

Mr. Johnson: 460.

The Chairman: Any other questions?

Is there anything else you wish to say, Mr. Berkshire?

Mr. Berkshire: Nothing else.

The Chairman: All right.

As I understand it, in taking the revenue by this

statute, it is a mere question of taxes, a question of undermining the whole system?

Mr. Berkshire: Yes, sir.

The Chairman: In other words, it is what you may lose if you relax this regulation?

Mr. Berkshire: All of our regulations are built on this statute upon this plan of supervision. All of them preclude the operation of any other business. We have had a movement on the part of the rectifiers to make Coca Cola in their rectifying plants. This isn't new. It has never been permitted.

Senator Lucas: You could handle the three plants but when you get into all of them, a couple of hundred more, then you would have a tremendous administrative difficulty, as well as tearing down the system?

Mr. Berkshire: That is what we fear. If we could limit it for a limited time, to two or three plants, that would be one thing, but this is broad enough to permit the production of anything or use of any articles for the production of sirups, and if you once permit the manufacture of one article it opens the way for most any manufacturing operation.

The Chairman: We have Mr. Farrington here.

Senator Butler: May I ask Mr. Johnson another question, Mr. Chairman?

Mr. Johnson, you say you can continue operating at about



half of the capacity of the plant on alcohol if this arrangement isn't made. Could you go exclusively to it, could you use your plant economically if you went entirely to distilling potatoes?

Mr. Johnson: On account of the unloading facilities, we would only be able to operate the plant at not more than 50 percent capacity on potatoes.

Senator Lucas: If you can only operate this plant on a 50 percent basis for alcohol purposes and this legislation should be considered as emergency for a period of two years, what is going to happen at the end of two years? Can you afford to take over this plant on the basis of a 50 percent operation?

Mr. Johnson: If we can get into the sirup business during this tremendous shortage, we feel that we can pay a substantial part of that plant during that period.

Senator Vandenberg: If it is limited to two years you will probably be down at the end of two years asking us to add a couple of more, won't you?

Mr. Johnson: Not unless there is a shortage on sirup that would justify it.

The Chairman: Mr. Farrington.

## STATEMENT OF MR. CARL FARRINGTON,

DIRECTOR, GRAIN BRANCH, DEPARTMENT OF AGRICULTURE.

The Chairman: Mr. Farrington, you are Director of the Grain Branch of Agriculture, are you?

Mr. Farrington: Yes, sir. I am Director of the Grain Branch of the Production and Marketing Administration of the Department of Agriculture.

The Chairman: You are familiar with this Resolution?

Mr. Farrington: Yes, sir; I have studied it.

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The Chairman: Very well. We will be glad to have a statement from you as to the purpose of it and the situation as it now exists.

Mr. Farrington: I would like to say in the beginning, Senator, that we have not cleared our position on this resolution with the Budget Bureau and do not know what the relationship of this may be to the President's program. We can only express the interest of the Department of Agriculture in this proposal as it relates to programs that we are carrying out.

Senator Vandenberg: You are in the same fix as Mr. Molotov is in international affairs?

Mr. Farrington: There are three things that bring this very much to our attention and we would like to present our views on those three propositions.

First, the potato situation which you have been discussing.

As has been indicated, there appears to be a surplus of fifty to sixty million bushels of potatoes from this year's crop, due in part to the high yields that have been obtained, and in part to the cutting off of the dehydration contracts, and other reductions in demand that have occurred.

The Chairman: Does the government own that surplus?

Mr. Farrington: The government is obligated to purchase at announced support prices any quantities of potatoes that may be offered to it and in the normal course of events we would become the owner of the surplus. We are trying many ways of handling the surplus potatoes. The Senator from New Jersey knows the extremes to which we have gone in New Jersey and the New York area in order to carry out the commitments to the farmers. The potatoes have been paid for and many of them will rot unless we can find immediate outlets for them. We are purchasing to the maximum support possibility but I don't believe that we can depend on that possibility to take care of the surpluses in time. Other means are being used. Of course, relief outlets are being pushed to the maximum at all times.

Senator Hawkes: Mr. Chairman, might I just add this there? I think you made a very fair statement of the situation, that the biggest problem in connection with the potato crop surplus is to find some way of preserving that foodstuff in some form, so that we won't wake up with the world starving

and have it be said that we failed to do the right thing at the right time. That is, to my way of thinking, the important thing.

Mr. Farrington: Yes.

Senator Vandenberg: That being so, why has dehydration stopped?

Mr. Farrington: The Army didn't feel that they should go on with their contracts.

Senator Hawkes: May I add that Secretary Patterson yesterday said he had no alternative, that the law itself said that he had to stop these contracts when the war was over. He had no alternative.

Senator Vandenberg: That is not my question. My question is, why isn't dehydration one of your first recourses in meeting the surplus problem?

Mr. Farrington: You do incur a substantial expense in dehydration, I understand, although I am not an expert in this particular field. I understand that the cost of dehydration is just about the same as the cost of potatoes originally paid, so you have a substantial cost.

Senator Hawkes: That is the point I want to make for Senator Vandenberg, so that he will understand what I mean, and that is there is no authority to go ahead with the dehydration because there is a very substantial expense.

The Chairman: The Secretary of Agriculture could go

ahead, or somebody else, if that was the proper way of handling it.

Go ahead, Mr. Farrington.

Mr. Farrington: The second matter that I would like to call attention is the probability that by December or January we will have large quantities of soft corn that we may find it necessary to ask the alcohol plants to handle.

Senator Butler: More than usual?

Mr. Farrington: Yes, sir; I think there is a probability of there being more than usual.

Senator Butler: Due to the late planting and the early frost.

Mr. Farrington: Yes.

So in looking ahead we would like to have an outlet such as this for that soft corn that may spoil if we can't move it promptly.

11 Third. Of course, we are very conscious of the shortage of sugar and sirup. I imagine all of you Senators have been getting telegrams from the bakeries in the last few days about the fact that they just can't get enough corn sirup to carry out their operations and anything we can do during the next few months in meeting that shortage, and this does seem to offer some substantial help along that line, we, of course, are interested in seeing that thing done, so that the present acute surplus situation on potatoes, and the equally acute

deficit situation on sirup, and the potential surplus of corn, all of that makes us very anxious that whatever needs to be done be done to permit these plants to be used.

The Chairman: Mr. Farrington, have you made any inquiry as to the Government's purpose to declare any one of these federally-owned plants surplus, either for sale or lease?

Mr. Farrington: I am not informed in that field, Senator. I don't know what the situation there is. Mr. Johnson has dealt with that and he knows much more about it than I do.

Senator Hawkes: Can they declare these surplus if there is an option out to people who at present lease them? I don't see how they can declare a thing surplus if there is an option out to buy.

The Chairman: I don't know about the time of the option but they can declare them surplus. The Defense Plant Corporation, of course, I think, is selling out its own surplus properties. If the option holders do not want them, they dispose of them.

Senator Hawkes: But the option holder has the time given to him. I don't see how they can destroy that time limit.

The Chairman: I am not sure but I think the expiration of all those options is dependent on the actual end of the war. I am not sure about that. I am just trying to find out what this problem is.

Mr. Johnson: Could I explain that one situation to you?

The Chairman: Yes.

Mr. Johnson: If you go back to the time that Congress passed the Defense Acts, which was prior to the war, a great many plants were built by Defense Plant Corporation under the Defense Act or Acts, which was prior to the war, and those Acts are still in force, and they have the same authority that they had before we had the war, and the termination of the war made no difference in that situation.

Now, these plants, these alcohol plants that are wholly owned by the government, when the War Production Board certified back to the Defense Plant Corporation their position on the large number of plants, they made the statement in their certificate, so far as the three plants mentioned in the Middle West are concerned, that those plants were not to be declared surplus until released by the Secretary of Agriculture, who was co-sponsor.

You see, under the Act you must have a sponsor of one of these Defense organizations or one of the Departments of the Government acting under the defense laws. So that we had a joint sponsorship in the Omaha plants, and I think in the other plants it was the same way, between the Department of Agriculture and the War Production Board. The Secretary of Agriculture has certified to the RFC that the Department of Agriculture continues with the sponsorship of those three plants for certain purposes and one of them is the making of

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alcohol and sirup. So that those plants are in the same situation as they were before the termination of the war as far as sponsorship is concerned, and continuation, under the present leases.

So I don't believe that there is any way those plants could be declared surplus until the Secretary of War files a certificate that he has released the sponsorship of the plants.

Senator Gerry: How long do the dehydrated potatoes keep?

Mr. Farrington: I think for a long period of time, but I don't know the exact time.

Senator Gerry: Meaning what?

Mr. Farrington: A year or two, I would say.

Senator Lucas: How much money will the government have in this surplus potato crop, assuming we have to take it off the hands of the farmers, which we will under our agreement?

Mr. Farrington: Well, that depends.

Senator Lucas: Supposing 60,000,000 bushels is involved. How many dollars will be involved in that transaction?

Mr. Farrington: I would think, Senator, some place in the neighborhood of \$75,000,000.

Senator Lucas: \$75,000,000. If you dehydrated those potatoes it would take another \$75,000,000?

Mr. Farrington: Approximately.

Senator Lucas: So you would have \$150,000,000 involved in



dehydrating potatoes.

Mr. Farrington: Yes. I am not sure that there are plants available for doing that much dehydration.

Senator Lucas: Assuming there was?

Mr. Farrington: Yes.

12- Senator Lucas: On the other hand, if these plants in Omaha and other places could get these potatoes, you would practically relieve the Government of that \$75,000,000; is that right?

Mr. Farrington: You would relieve them to the extent of the second \$75,000,000, Senator, but for the first \$75,000,000 the Government would still have a substantial loss.

Senator Lucas: We are paying \$75,000,000 for the potatoes. What are we going to sell them for to these plants to make sirup?

Mr. Farrington: Mr. Johnson testified that under his contract he is paying 55 cents a hundred.

Senator Lucas: That would be about a 50 percent loss, then.

Mr. Farrington: It would be more than that because there is a freight cost in addition to what is paid the farmer. So there would be a very heavy loss to the government in selling the potatoes at that price.

Senator Guffey: If you ship potatoes from Maine to

Philadelphia the freight rate is higher than it would be from New York to Philadelphia.

Mr. Farrington: That is correct.

Senator Guffey: And they get the same price in the field.

Senator La Follette: Of course, you are interested in preventing as much loss as you can in the purchase program, but is it or is it not a fact that the primary or one of the most important interests of the Department is due to this shortage of sugar and the sirup situation?

Mr. Farrington: It is the shortage of sugar that makes it particularly desirable to have this outlet available. Any amount of recovery that we make from the purchase price of the potatoes is much better than if they just lay there and rot.

Senator La Follette: It is not just the farmers that are interested in this thing, for the Department is interested in it from the standpoint of salvaging some of the loss inherent of the purchase price, and although the entire consuming public will be deprived of many products into which this sirup would go if it is manufactured, and which otherwise would not be available to the consuming public.

Mr. Farrington: That is correct. That is a very excellent statement of it.

Senator Millikin: Mr. Chairman, may I ask a question,

please?

The Chairman: Senator Millikin.

Senator Millikin: Mr. Farrington, translating the 50,000,000 surplus into terms of tons of sugar, how many tons of sugar would be produced by a 50,000,000 surplus?

Mr. Farrington: I think you would get about 20 pounds of sirup out of each hundred pounds of potatoes. Isn't that about right, Mr. Johnson?

Senator Millikin: Twenty pounds of sirup for each 100 pounds of potatoes?

Mr. Farrington: Yes. And your 50,000,000 bushels would be 30,000,000 hundredweights, so if you could convert all of it, you would have, as I figure, 30,000,000 hundredweights and 20 pounds per hundredweight, it would be 600,000,000 pounds.

Senator Millikin: Have you any authentic information on that sugar board that was found in Java?

Mr. Farrington: No, I haven't. The figure as published in the papers was 1,600,000 tons.

The Chairman: Are there any further questions?

Senator Lucas: What is the total potato crop in the country?

Mr. Farrington: 433,000,000 bushels.

Senator Lucas: Now, we are guaranteeing to the farmers how much per bushel?

J Senator Hawkes: \$1.60 average per bushel.

Mr. Farrington: It varies over the country.

Senator Hawkes: That is the average as calculated in the meeting the other day.

Senator Lucas: What are potatoes worth at the present time per bushel?

13- Mr. Farrington: Well, the Department is buying at support prices in many areas. In some places it is sagging below the price.

Senator Lucas: Somebody said it sagged \$1.50 in Nebraska.

Mr. Farrington: It had been well above the support price and fell below the support. I think that was the situation there.

Senator Lucas: As long as you have the surplus crop, it will continue to go below the support price.

Mr. Farrington: That is right.

Senator Lucas: If there is a move made to take the surplus crop off the market, wouldn't that have a tendency to bring potatoes back where they belong?

Mr. Farrington: Yes; these temporary surpluses, if you had some regular way of moving them.

Senator Lucas: You have got many more millions than the 75 involved in this 433,000,000 if you are going to pay the support price, which you have to do. So any move you

can take to take the potatoes off the market will be extremely beneficial.

Senator La Follette: May I ask Mr. Berkshire a question? Would your opposition to this proposal be softened any if it were limited to a specific emergency period in order to try to meet the situation so far as the shortage of sirups and the surplus agricultural commodities are concerned?

Mr. Berkshire: It certainly would, Senator. It would be better. We would certainly hate to see this thing get into the whole industry and throw it wide open to producing other articles. We think our check would be difficult and it would really jeopardize the revenue.

Senator La Follette: Would it help to soften your opposition any if the particular commodities were stated in the Act, so that you wouldn't have this question that you raised about producing soft drinks on the premises?

Mr. Berkshire: This, of course, does not do that but I say it opens the way for others to come in and ask, which they have done in the past, insist that their plant be used in a dual capacity of some sort.

Senator Millikin: What is the annual revenue from alcohol?

Mr. Berkshire: Alcohol and distilled spirits, which would include whiskey -- Do you ask for the gallons or the revenue?

Senator Millikin: I would like to know the dollar revenue

from alcohol.

Mr. Berkshire: That is in the neighborhood of 20,000,000 gallons of alcohol alone.

Senator Millikin: What do you get for alcohol?

Mr. Berkshire: \$9. It is relatively small. We get over a million dollars in all these plants, but some of the plants are used, however, to make whiskey at one period and alcohol at another.

Senator Lucas: Of course, if they were permitted to make sirup simultaneously with alcohol, that wouldn't, eventually, cut down the revenue, they would make just as much alcohol in these plants as they are making now, over the country.

Mr. Farrington: Yes. That isn't a factor at all. That wasn't it. It is just having two sets of prices and two kinds of materials on the premises at the same time. We found it difficult enough just to watch one.

Senator Lucas: You fear the breakdown of the system?

Mr. Berkshire: Yes.

Senator La Follette: It is an enforcement problem.

Mr. Berkshire: Yes.

Senator La Follette: But you say you might be willing to consider this further if some very definite period were set in making it an emergency proposition?

Mr. Berkshire: It would certainly be much better, and

if it could be controlled that would not be so bad. We are just afraid of it, Senator, as a step in the wrong direction, so far as our protection of revenue is concerned.

Senator Vandenberg: Is there much doubt in your mind that if it was established for two years that they would have a pretty good case to keep going afterwards?

Senator La Follette: Would it be necessary to make it so long?

Senator Butler: Make it six months.

Senator La Follette: Make it six months. Your surplus is here now.

Senator Vandenberg: I will vote for six months.

Mr. Berkshire: We will do our best to make it work.

Senator Vandenberg: I think when you talk about two years you more or less establish a vested practice.

Senator La Follette: What I am trying to do is to see if we can't get the Treasury and Department of Agriculture on some proposition which would take care of a problem which grows out of a particular crop year and a particular situation and let it be stated four ways from the middle in the report and on the floor that this is simply being done for the purpose of taking care of this emergency situation, which I want to emphasize again is in the interests of the consumer. I mean, if the situation as presented to me, making all due discounts that might be necessary,

but if the situation, as presented to me, from those who use these products in actual food processing, is at all accurate, the consumers are vitally interested in this situation, as well as the producers and the Government. That is all that I am striving to do. If we could have it clearly understood that this is not the entering wedge which Mr. Berkshire feels that it is, and we could have it stated with a definite time limit set in the Act, and set it short enough so it is an emergency time limit, and have the report say positively that it is only to take care of this situation, and as far as I am concerned I am willing to say that I am opposed to this thing as a permanent proposition, I think it could be worked out.

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I was just wondering if there was any chance of getting together on the proposition in order to try to take care of this emergency situation.

Senator Lucas: It seems to me that if we don't do something we are laying ourselves open to a tremendous amount of criticism, if we have the tools and the machinery to take care of the surplus potato crop and sit by and don't do something the farmers and the taxpayers and the consuming public will have a right to condemn the situation, in my judgment. I am not for a permanent situation either, but it is a temporary thing. It is something that we can handle. We have got these big government plants to do it. Here are people willing



to do it and who want to do it. In that situation if we sit by on a technicality on the question of a proper administration for a short period of time, why, you can't explain that when people are suffering for want of food.

Senator Vandenberg: I wouldn't stand on a technicality, Senator, for a second, but I would stand on the establishing of a precedent that could become permanent. I think the fact that it is for six months indicates that it is an emergency. I think two years does not let it speak for itself as indicating that it is an emergency.

Senator Lucas: I think there is something in that.

Senator La Follette: What have you to say on the length of the emergency?

Mr. Farrington: Considering the length of time potatoes will be moving out of Maine and the Red River Valley, up through May, I would say, and there may be considerable spoilage that would take place during that period. Also, if we have large quantities of wet corn I think we should be protected through April and May. I think June 30, or something like that, would be more appropriate for taking care of this particular emergency.

Mr. Berkshire: Might I suggest that we confine this to the particular commodity that we are attempting to save?

Senator La Follette: I suggested that we confine it to potatoes and soft corn.

Senator Vandenberg: Make it nine months.

Senator La Follette: This is October. November, December, January, February, March, April. That is seven months. Can you get by with the first of May?

Mr. Farrington: I think June 30.

Senator Lucas: The fiscal year.

The Chairman: Any further questions of the witness?

Any questions of Mr. Johnson?

Senator Fulbright, do you have any statement to make?

Senator Fulbright: Mr. Chairman, I don't know that I can add anything to the technical part of the discussion. Of course, I was interested in the potato situation. I thought that there might be some merit in this development in this area, particularly as to an outlet for surpluses. I thought there was some merit in giving these plants the right to continue in the future for the utilization of these surpluses that always plague us in that part of the country. This wet corn situation comes every so often. And we have had trouble with potatoes before. So I did have that little interest in mind in addition to the immediate emergency,

I was hoping that we could find some way to keep these plants operating. When I was first approached about the matter I understood that it was likely that these plants would close up and be dismantled if they weren't able to continue. I hoped that this would contribute to the utiliza-

tion of these plants as a means of removing these surpluses that occur in various grains and potatoes in that area. Alcohol, of course, can be used in normal times for many purposes besides sugar. That appealed to me as a further reason why some effort might be made to help them over the transition period. The Secretary of Agriculture told me that there is a large surplus of alcohol that has been accumulated. It is a rather unusual stockpile. That will gradually be used up. They are discovering new uses, other than for synthetic rubber and in the plastic field.

I had hoped that something could be done to enable these plants to operate through this period.

The Chairman: Anything further?

Senator Millikin: I would like to ask whether it is practical to turn the alcohol back to sirup?

The Chairman: How is that?

Senator Millikin: I was wondering whether it was practical to turn the alcohol back to a sirup.

Mr. Johnson: No.

Senator Fulbright; I understood in the discussion that took place with the Secretary of Agriculture that this plant and other plants, if they weren't permitted to do this, could not operate economically. Mr. Johnson says they can go on at a 50 percent rate. I was of the opinion from that discussion with the Secretary of Agriculture that if

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this was not worked out that these plants were not going to continue to operate.

Mr. Johnson: I would like to clear that point up, if I may.

Senator Fulbright's statement is true in so far as continued operation of those midwest plants after the immediate soft corn period is concerned because we couldn't continue in operation on a small production with those large plants. Our calculations show that by the time we get through this sirup period, the shortage of sirup, by that time these plastic plants will be in operation and about 700 new uses will be developed for alcohol. So that by that time we will have a considerable demand for alcohol in all of these plants.

Senator La Follette: By what time?

Mr. Johnson: In two years. This sirup situation as we see it will last for about two years.

Senator Vandenberg: I have to go to the floor, Mr. Chairman.

The Chairman: That is all on this matter. We have some nominations to take up.

(Whereupon, the committee proceeded to the consideration of other business.)