



The Abba Hillel Silver Digital Collection

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MS-4787: Abba Hillel Silver Papers, 1902-1989.

Series 1: General Correspondence, 1914-1969, undated.

Sub-series A: Alphabetical, 1914-1965, undated.

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Taking stock of 1943, sermon and correspondence, 1944.

AMERICAN BUILDING AND REPAIR CO.

SWETLAND BUILDING

CLEVELAND, OHIO

January 3, 1944

Rabbi A. H. Silver
Euclid Avenue Temple
Cleveland, Ohio

Dear Rabbi:

I have read your sermon, recorded in the Cleveland Plain Dealer of January 3rd, a number of times and have come to the conclusion that you are taking the wrong stand. You are criticizing people, yet in your position you can correct this corruption and foolishness that is going on. You have access to every Rabbi in the United States and you also have access to every minister, Catholic or any other religion.

Therefore the stand that you have adopted is the wrong one. You can create a working organization with the help of the other churches and synagogues to aid the Government in annihilating this black market and halting the inflation. For example, Mr. James F. Lincoln whom you mention in your speech - if you check up you no doubt will find that he is a leading parishioner of some church in Cleveland, and most of those who practice this corruption occupy front pews in some church or synagogue.

Now is a perfectly logical time for all those people who represent the churches to combine and assume some responsibility. My idea is to set up a bureau - let's say you start it in Cleveland - and work it up to such an extent that every church in the country will help. It will not take very long and you will find that the actual cancer lies among the church members, who do not know that the minister means them when he gives them that long talk. Only in this way will you be able to cut out black markets and avoid the inflation you speak of in your lecture.

You know yourself it is easy for Congress to pass laws, but not 1% of law violators are brought to justice because it would take 50% of the population of the United States as a police force if all the criminals were brought before the bar.

It is up to the churches to assume responsibility, and not just waste words. It is true it would be quite an undertaking, but the first organization would not be hard to start and after that the movement would work by itself in every city. I know of five stenographers who will give their time and effort without pay to help you start this organization. I am also willing to contribute \$50.00 as a start toward financing the project. This organization should be started as soon as possible, because the longer it is delayed the harder it will be to stop the corruption and inflation.

From my letter you can see that I have no education of any kind but I do have common sense and a realistic idea - I do not believe in just waiting for the other fellow to do something or trust that miracles are going to save us from the trouble that is waiting for us after the war is

Rabbi Silver

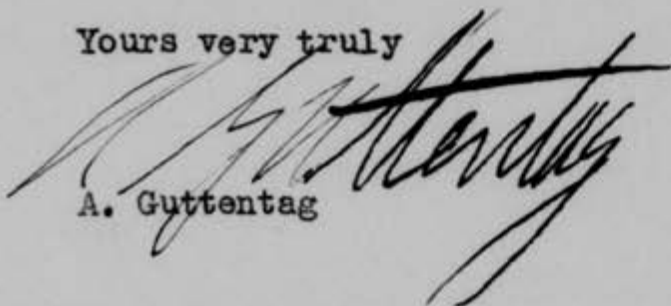
January 3, 1944

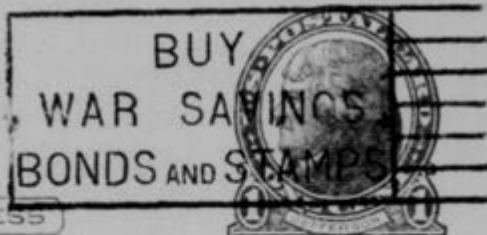
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disposed of. If you read this letter with an open mind I think you will agree that at least I am on the right track.

Yours very truly

A. Guttentag





THIS SIDE OF CARD IS FOR ADDRESS

Rabbi A. H. Silver

The Temple

105 St.

Cleveland

I have long since stopped subscribing to the Plain Dealer because of its labor-baiting attitude; ~~and so of course~~ their defense of J.F.Lincoln is only to be expected. At least the inanity of today's editorial serves to throw into relief your fairminded query which called forth their wrath.

Ada Murray Clarke
(Mrs.) Ada Murray Clarke
12483 Cedar Rd.
Cleveland Hgts.

1/4/43

First Presbyterian Church

16200 EUCLID AVENUE

EAST CLEVELAND, OHIO

12
GLENVILLE 6292

HOWARD MYERS WELLS, D. D.
MINISTER

RUTH H. WINTERS, DIRECTOR
RELIGIOUS EDUCATION

RUTH E. COLBEY
CHURCH SECRETARY

FRANK N. HARVEY
TREASURER

Jan 4, 1944

Dear Rabbi Silver -

I'm glad you said what you
did in your last Sunday's lecture
as reported in the papers. It
was forcibly and dramatically
put; it needed to be said; it took
courage to say it and it was
timely. It will be interesting to
read the flim-flam that
will follow - seeking to prove
that you don't know a thing.

With personal regards
Yours truly

Howard M. Wells.

NATIONAL MACHINE TOOL BUILDERS' ASSOCIATION

Machine Tools The Master Tools of Industry

10525 CARNEGIE AVENUE

CLEVELAND 6, OHIO

January 4, 1944

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PRESIDENT, THE R. K. LEBLOND
MACHINE TOOL CO.
CINCINNATI, OHIO

Rabbi Abba Hillel Silver
19810 Shaker Boulevard
Shaker Heights, Ohio

My dear Rabbi:

I have before me your views as expressed in the Plain Dealer this morning. Of course you may not have been correctly quoted, but if you were, you are comparing Mr. Lincoln with Mr. Lewis, pointing out that defiance of the government is defiance of the government no matter who is guilty of it and that it is not cricket in time of war.

The difference it seems to me is that Mr. Lewis has told the government on occasion that he would either have his demands or stop producing coal. Mr. Lincoln has never suggested directly or indirectly that he would stop producing the welding rod that he manufactures. I think that your use of the word "insolent" in connection with Mr. Lincoln's attitude is most unfair as I have heard Mr. Lincoln testify before the House Ways and Means Committee and before the Senate Finance Committee, and his attitude has never been anything but courteous and reasonable.

Another difference between John L. Lewis and James F. Lincoln is that Lewis is trying to get more money for the things that he has to sell, that is the labor of the members of his Union, whereas Mr. Lincoln is not trying to raise his prices and is not pleading for an increased return.

The earnings of American industry have fallen off from 1940 to 1941, and again from 1941 to 1942. It must be remembered that renegotiation is applied on top of and in addition to the demands of the excess profits tax, and the effect of federal taxation on 1942 earnings is to remove about 3/4 of them and remove them in cash.

That means that the residue is in many cases wholly tied up in bricks, mortars and machines, and typical of the predicament in

Rabbi Abba Hillel Silver

-2-

January 4, 1943

which the business man finds himself is the testimony of Mr. C. N. Safford, Treasurer of the Lovejoy Tool Company of Springfield, Vermont, on September 16, 1943, before the House Ways and Means Committee. Mr. Safford pointed out that in order to make the payments demanded by the Boston Ordnance Price Adjustment Board, his company will have to go to the bank and borrow money.

The difference between your point of view and that of the industrialist, Rabbi Silver, is that you are thinking of renegotiation as the recovery of excessive profits. You are thinking of the theory of renegotiation as Congress wrote it into the law. The industrialist is complaining bitterly about renegotiation as it is carried out. He is complaining about what is actually happening to his company and to other companies, not on a basis of theory, but on a basis of hard experience. You think that he is fighting for additional profits so that he can buy a cadillac car and build a bigger house. The industrialist is struggling to retain enough of his 1942 earnings so that his company will not close up when the war is over.

The corporations of America face the responsibility of maintaining employment as nearly as possible at present levels after the fighting stops and of offering employment to the returning soldier. Now you can't have it both ways. You can either milk a cow or cut steaks out of her, but you and the other liberals in the United States have got to make up your mind as to which you are going to do. You just can't have both.

Sincerely yours,

Tell Berna

Tell Berna
General Manager

TB:et

W. WOFFORD T. DUNCAN, D. D., LL. D.
PASTOR, COLUMBIA METHODIST CHURCH, PARSONAGE, HIGHWAY 82
COLUMBIA CENTER, POST OFFICE COLUMBIA STATION, OHIO
TELEPHONE: "COLUMBIA STATION 517"

January 5, 1944.

My dear Rabbi Silver:-

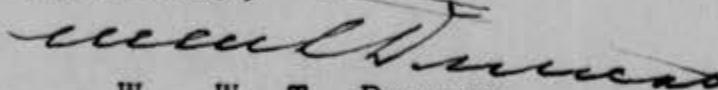
I was delighted to read the portion of your prophetic utterance of last Sunday as reported in the Plain Dealer last Monday. Your emphasis of the need of fair play on the part of the press in condemning capitalistic greed as well as that of labor, was most timely.

I do not consider that the reply of the editor of the Plain Dealer on Tuesday was at all adequate. Because capital uses a different method of securing war profit it by no means followsthat it is lily-white in comparison with labor. I do not think that ^{you} "overlooked entirely" anything in this connection. What you refused to "overlook" was the fact that because capital has not "hung out a sign" of opposition to the government in its search for war-profits it has in a more subtle way sought financial gain.

In giving away a large portion of my library before putting it in storage when leaving Lakewood, I was careful not to lose your two valuable books. The later volume which you kindly gave and autographed for me two years ago last November is particularly appropriate to this hour, for you then anticipated much that is now being said by those who seek a just and durable peace.

With all good wishes and kindest regards,

Very sincerely,


W. W. T. Duncan

Try
2006

2066 Adelbert Road,
Jan 16, 1944.

Rabbi A.H. Silver.

Rev & Dear Sir.

Your remarks as quoted in the daily papers a few weeks ago comparing Mr Lincoln with the racketeer Iro Lewis were in my humble opinion uncalled for. Lincoln is producing material to help win the war. The other racketeer is trying to block the war effort.

Permit me to suggest that if you are looking for subject matter that you tackle the labor racket, which is the greatest menace we have within our borders today.

When the racketeers were charging a laboring man fifty dollars for the privilege of getting a job, where was your protest?

Who smears your home, if not painted

by the union? who blows up steam shovels?
Who charges a produce ^{gardner} ~~driver~~ eight or
ten dollars for ~~the~~ unloading his
truck, when he could do it
himself? why the labor racketeers
of course. I could go on ad-infinitum
but what's the use as long as F.D.R.
backs them up.

Would to God that we had a
hundred more columnists like
Pegler who has the courage of
his convictions

Yours truly
Wm. H. Dickson

Parlee C. Grose,
McComb, Ohio.
Jan. 6, 1944.

Rabbi Silver,
The Temple,
E. 105th and Ansel Rd.,
Cleveland, O.

Dear Rabbi Silver:

I am enclosing copy of a letter
to the Plain Dealer in which I join your
forum in expressing some views.

There is one thing that
gratifies me: If you and enough other
able minds energetically address thought
to some of these perplexing and dis-
turbng questions, some stupid and un-
civilized practices may one day be
abolished.

Very truly yours,

Parlee C. Grose
Parlee C. Grose

Parlee C. Grose,
McComb, Ohio.
Jan. 6, 1944.

Editor,
Plain Dealer,
Cleveland, Ohio.

Dear Sir:

Rabbi Silver's denunciation of "a self-righteous James F. Lincoln" and your following editorial, must have exercised thoughtful minds.

Rabbi Silver's exposition, it seems to me, carried an unwarranted bias (in implication, at least) favorable to the laboring man and his weapon of the strike. In any event, the weight of his argument was focused on the industrialist rather than on striking labor.

Your editorial was fair, I think, in pointing out this imbalance. The industrialist, the soldier, the farmer--none of these, however dissatisfied with ~~their~~ respective lots in a war economy, have resorted to the strike.

But there is another phase of the question, one demanding some clear thinking. That it involves fine points on which thoughtful men will differ is evidenced by the minority report of the senate finance committee on the renegotiation bill.

Called by the exigencies of war from their peace-time professions and businesses there is in the armed forces today a host of temporary captains, majors and colonels who at the expiration of war will return to their old jobs and their old economic status. Do they set forth the claim that they have acquired a vested interest in their captaincies and colonelcies and that the post-war welfare of the country demands that they carry on as such?

Likewise the exigencies of war have crippled many small peace-time businesses, their funds and labor being siphoned into the vastly expanded defense plants such as that of James F. Lincoln. Like the temporary captains and colonels, Mr. Lincoln, I suppose, has received a certain salary compensation, and justly. But with just what validity, I wish it were made clear, does Mr. Lincoln hold that his expanded plant should continue, rather than flow back (like the captains and colonels) to the pre-war establishments? In brief: If a defense plant accumulates ~~xxx~~ profits, will it not be at the expense of the already crippled peace-time enterprise? And which of the two has the valid claim to the funds (savings of the country at large) in question?

As to the contention that profits are conducive to efficiency and plant economies, maybe it would work still more potently if tried out first with the boys at the front.

In any event, here are some fine points calling for hard thinking. Personally, I suspect that enlightened opinion will one day revolt at the thought of either war-time profits or war-time strikes.

Very truly,

Parlee C. Grose.

Israhman

Canton, O.
Jan. 7 th.

Editor of the
Plain Dealer, and

Rabbi A. H. Silver,

Cleveland, O.

Gentlemen:

I notice that you two are having a nice quiet 'rhubarb' about labor and industrial Racketeers, Rabbi Silver claiming that you refuse to print news concerning the profiteers of industry.

I believe he is correct and, without any invitation of any kind, what say we make it a threesome?

As we all know, any Editor could claim that "Two and two are five" and win the argument, because, being an Editor, he has the last word.

Therefore, this letter to you has two aims (1) to make you prove your claim that you 'have been quick to condemn industrial Racketeers' and (2) to furnish proof to Rabbi Silver, (he can keep this among his souvenirs) that, should you fail to prove your claim, he really won an argument with an Editor.

If your claim is correct, please prove it to me, by mailing me a Dec. 8, 1943 issue of your paper, which should contain the following piece of news:

"On Dec. 6, 1943, Mr. W. F. Rockwell, Chairman of the Board of the Timken-Detroit Axle Co., while appearing before a Congressional Committee, was told by Maj. Gen. Lucius D. Clay, Director of Materiel, that contract # W-20018-ORD-816 was "utterly unreasonable and contains terms that the Government should never yield to".

You might mail the paper carrying the above news to Rabbi Silver; he would enjoy reading it, I am sure.

Also, if your claim about printing the above kind of news is true, suppose you mail to Mr. Silver and I copies of the Plain Dealer of Dec. 13, 1943. We would love to read the fol-

-lowing bit of news concerning the same contract:

"The U. S. Army, on Dec. 11, 1943, surrendered to the Timken-Detroit Axle Co., on terms which it told the Senate five days earlier were "utterly unreasonable"."

Did you print that, Mr. Editor? If so, prove it!

So you never heard of a Profitteering Industrialist conducting a **strike**, eh? What do you call the above?

But, I am just beginning, Gentlemen; get a load of this:

Can you prove to Rabbi Silver and I that you told your Readers the following facts?

During the Committee meeting mentioned, Mr. Rockwell admitted that:

(a) Timken-Detroit made (before taxes) \$39,839,000 in 1943, as compared to \$2,116,000, their peacetime average.

(b) Timken-Detroit paid almost three times as much in dividends in 1942 as they paid in the pre-war years of 36, 37, 38 or 39.

(This caused Mrs. Graham, who is looking over my shoulder to remark: "With so much coupon clipping going on, no wonder I could not buy a new pair of scissors".)

(c) The salaries of Timken-Detroit Executives for 1942 were only 8½% more than they received in 1940.

At this time, suppose we pause long enough for me to bet you two new hats, (one for Rabbi Silver, also), that no one connected with the Plain Dealer can find a single Employee, Union or non-Union, whose hourly wage has been increased in the same proportion.

Wanna bet, Mr. Editor?

Getting back to Mr. Rockwell again---hold onto your hats Gentlemen; this will floor you.

Did the Plain Dealer (?) print the following statement by Mr. Rockwell?

In answer to the question "Why did you fight against the Renegotiation Act?", Patriot Rockwell replied:

(quote) "I decided to fight against that law because its method of administration endangered the welfare of 11,000 Timken-Detroit Stockholders". (end of quote).

Patriot Rockwell thinks more of the welfare of his 11,000 coupon clippers, than of his Country.

We would like to have you mail the Plain Dealer have the above news in it---if you can, Mr. Editor.

Now, lets us get around to your statement about how Mr. Farmer never gets off of his plow, to ask Washington for overtime, etc.

The above remark is too inane to deserve much of a reply, for two reasons--- (a) Abner Turnipseed is very well represented in Washington, thank you, and doesn't have to go there and (b) he has more sense than to get off of his plow.

No Siree----old Ab just rides that cultivator of his and turns that nice fresh earth up so that it nestles up against that head of lettuce.

And when that choice vegetable reaches maturity, he hauls it into Canton, to the corner of Dryden Ave. and 4th St. N. W., (Farmers' Market), and when Mrs. Graham comes up with its pre-war price, ten cents, old Abner raises his shaggy eyebrows, thereby dislodging several goats, and says: "Sorry, Lady; this here now lettuce is 24 cents, take it, or leave it, by gum"!

Mr. Turnipseed is getting by, Mr. Editor--he's getting by. If you don't believe it, ask Mrs. Editor.

In conclusion, I am forced to admit, (grudgingly), that there was one thing about your editorial which was right 'on the beam', so to speak.

That was its title

"There Is A Difference".

(4)

You see---I read the facts about the five day Tim-
ken-Detroit strike in the Country's greatest paper----

"PM".

And, when PD is compared against PM, Gentlemen

"There IS A Difference!!!

Or, am I too loud?

Sincerely yours,

Carl E. Graham,

1224 Homedale N. W.,
Canton (3), Ohio.

January 7, 1944

Mr. Edgar S. Byers
Friebolin & Byers
2002 N.B.C. Building
Cleveland 14, Ohio

My dear Mr. Byers:

Thank you so much for your thoughtfulness in writing to me. I enjoyed reading your letter greatly. The subject had to be brought to the fore and I am glad that it has aroused widespread discussion which may result in some good.

With all good wishes, I remain

Most cordially yours,

AHS:BK

January 7, 1944

Dr. W. Wofford T. Duncan
Columbia Methodist Church
Columbia Station, Ohio

My dear Dr. Duncan:

Thank you so much for your thoughtfulness in writing to me. I enjoyed reading your letter greatly. The subject had to be brought to the fore and I am glad that it has aroused widespread discussion which may result in some good.

With all good wishes, I remain

Most cordially yours,

AHS:BK

January 7, 1944

Mr. Tell Berna, General Manager
National Machine Tool Builders' Association
10625 Carnegie Ave.
Cleveland, Ohio

My dear Mr. Berna:

Permit me to thank you for your kind letter of January 4 which I read with a great deal of interest. It is difficult to enter into a discussion of so large a subject within the confines of a letter. I should merely like to call your attention to the newspaper report in the New York Times of yesterday headed "Find Huge Profits Would Be Returned" which gives part of the formal report made by four members of the Senate Finance Committee. This report gives some very revealing statistics which are disturbing the American people.

I wish there had been a fuller coverage of my Sunday morning address. My point was that there was too much of the pot calling the kettle black, but that all groups, each in its own way, had been guilty and that the grave hour calls for a heart-searching on the part of all. The great opportunity of the press as I see it was not to stigmatize one group for failure to understand that the hour calls for great sacrifice and pass lightly over, or even completely cover up the offenses of the other groups, but to call all of them to a strict patriotic accountability.

Very cordially yours,

AHS:BK

January 7, 1944

Mr. A. Guttentag
American Building and Repair Co.
Swetland Building
Cleveland, Ohio

My dear Mr. Guttentag:

Thank you for your thoughtfulness
in writing to me. I enjoyed reading your letter
greatly. The subject had to be brought to the
fore and I am glad that it has aroused widespread
discussion which may result in some good.

With all good wishes, I remain

Most cordially yours,

AHS:BK

January 7, 1944

Mrs. Ada Murray Clarke
12483 Cedar Rd.
Cleveland Heights, Ohio

My dear Mrs. Clarke:

Thank you so much for your thoughtfulness in writing to me. I enjoyed reading your letter greatly. The subject had to be brought to the fore and I am glad that it has aroused widespread discussion which may result in some good.

With all good wishes, I remain

Most cordially yours,

AHS:BK

January 7, 1944

Mr. Wm. M. Davy, Secretary
Cleveland Industrial Union Council
1000 Walnut Ave.
Cleveland, Ohio

My dear Mr. Davy:

Thank you for your thoughtfulness
in writing to me. I enjoyed reading your letter
greatly. The subject had to be brought to the
fore and I am glad that it has aroused widespread
discussion which may result in some good.

With all good wishes, I remain

Most cordially yours,

AHS:BK

January 7, 1944

Dr. Howard M. Wells
First Presbyterian Church
16200 Euclid Avenue
East Cleveland 12, Ohio

My dear Dr. Wells:

Thank you so much for your thoughtfulness in writing to me. I enjoyed reading your letter greatly. The subject had to be brought to the fore and I am glad that it has aroused widespread discussion which may result in some good.

With all good wishes, I remain

Most cordially yours,

AHS:EK

Ja nuary 7, 1944

Dr. Jacob C. Meyer
Western Reserve University
Cleveland 8, Ohio

My dear Dr. Meyer:

Thank you so much for your thoughtfulness in writing to me. I enjoyed reading your letter greatly. The subject had to be brought to the fore and I am glad that it has aroused widespread discussion which may result in some good.

With all good wishes, I remain

Most cordially yours,

AHS:BK

January 19, 1944

Mr. William H. Dickson
2066 Adelbert Road
Cleveland, Ohio

My dear Mr. Dickson:

I know that you are angry at labor racketeers and those who through strikes interfere with our war effort. I share these sentiments with you fully. Contrary to your impression, I have frequently denounced the labor racketeer from my pulpit, and these criticism were reported in the public press and occasionally were commented upon editorially.

The whole point to my address, a few Sundays ago, was that men like yourself exhaust all their patriotic indignation on labor racketeers and strikers and have none left for unconscionable war profiteers who are using the war and the tragedies of the war to enrich themselves -- men who contemptuously flout and denounce our own government when it seeks to recover from them outrageously excessive war profits. My subject was inflation, and I asked, in the course of my address, why fifty thousand dollar bonuses were less inflationary and more patriotic than an extra five or ten dollar bill in the pay envelope of a working man. The war profiteering on the part of men like Lincoln arouse and incite the laboring man and are responsible for the sullen resentment which is widespread in their ranks.

The pot calling the kettle black is no way to help our country get out from the dangerous inflation cycle into which it is rapidly moving.

Very sincerely yours,

AHS:BK

[undated]

FRIEBOLIN & BYERS
LAWYERS

2002 N.B.C. BUILDING
CLEVELAND 14, OHIO

MAIN 7653

CARL D. FRIEBOLIN
EDGAR S. BYERS
ARTHUR W. FRIEBOLIN

My dear Rabbi Silver:

Will you accept my congratulations for the way in which you surked off the local press in connection with their attitude toward the profiteers? The boys are beginning to be a little jittery I think. They have overplayed their hands and the tide has started running against them again.

Have you seen a series of articles which appeared in the Wall Street Journal some months ago, which later was published in pamphlet form, and which appears to be a fair discussion of the renegotiation question? It was interesting because of its admission that business men generally were satisfied that the law was being fairly and competently administered.

The unscrupulous economic humorist who probably wrote yesterday's editorial probably would have refused to read such heresy if it had been called to his attention.

Best wishes, and don't let them down too easy, please

Truly yours
Ed S. Byers.

[undated]

W.R.U. Cleveland 6, Ohio.

Rabbi Abba Hillel Silver,
The Temple,
Ansel Road, Cleveland 6, Ohio.

Dear Rabbi Silver:

Congratulations again! This time you have the editors in a hot place and they seemingly resent being caught with the goods. Who would not? I like so much the P.D. editor who argues that Lincoln "has been fighting for an equitable administration of the renegotiation law....which will make it possible for industry to survive the war and resume peacetime operations with some hope of providing jobs etc etc." Is it not fine to be located where one can prejudge the whole case while one is making the argument? I suspect you and I used to do that when we were Sophomores in high school, but I mean it would be fine to be thus innocent of all the rules of logic throughout one's lifetime. It must be most helpful for the editor who makes excathedra pronouncements on weighty problems.

The editor had already agreed that no one has a moral right to try to make money out of the war. He must not read his own newspaper if he thinks that is not happening now; ~~even~~ in the very issue of the paper in which his editorial appears the evidence is given. Some get the "dough" without the strike!

Again we are informed that no American industrialist has interfered with production. Another excathedra statement bearing all the marks of fallibility!

Has the editor never heard the expression "Why should I work and make sacrifices when the few are raking in the dough?" Apparently he must be deaf!

Mr. Lincoln has the money in hand, the laborer is trying to get it. Naturally they use different methods but the objective is the same. The editor would seem to argue that because one man is trying to kick the pig skin north he must be playing a different game from that of his opponent who is trying to kick it south. All such arguments simply add up to an obviously evident incompetence to judge the action of the participants.

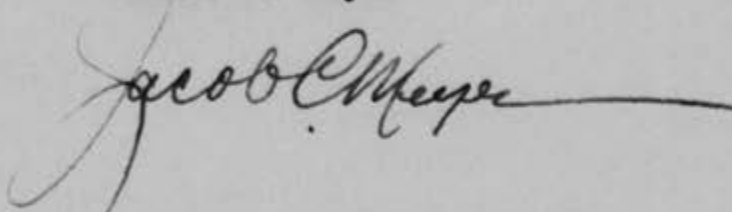
Finally just why should incentive be necessary for the few and not for the many? Why permit some to get more and more on the basis that they must have incentive and then freeze the income of the others as though they belonged to a different species of the animal kingdom? May it be that the Lincoln's are Nordics, supermen or even little models of the Hitlers and Mussolinis? Again the infallible editor might call upon the anthropologists and those who have the calipers to measure cephalic indexes if he were not convinced of his infallibility and competence.

But this is getting too long. I am enjoying the discussion and feel sure some good is being accomplished by dragging these editors out into the open and tagging them so all who run might read their real names.

Since I do not buy all the papers every day I hope I may not find myself missing anything you may have to say in reply for the rebuttals always interest me when the illogical and "infallible" meet those whose interest is truth and justice.

Sincerely yours,

Jacob C. Meyer



RENEGOTIATION



National Machine Tool Builders Association

Cleveland 6, Ohio • • • • September, 1943

RENEGOTIATION

In the machine tool industry, renegotiation as at present administered actually threatens the industry's post-war survival.

The machine tool industry approves the principle of eliminating excessive profits, as well as the review of contracts to determine to what extent excessive profits may have accrued. It objects to the methods used by the Price Adjustment Boards in their renegotiation procedure, because if they persist in these methods they will deprive machine tool companies of earnings needed to weather the impending post-war machine tool depression.

As enacted by Congress, the renegotiation law provides that the manufacturer and the Price Adjustment Board shall come to an agreement as to the amount of the manufacturer's profits that are excessive, and that therefore should be returned to the government.

The return is assumed to be made voluntarily.

In actual experience the machine tool builder submits his facts and figures and the Price Adjustment Board then determines the amount of money he must pay.

If the machine tool builder feels that the demand is excessive and declines to sign the "agreement" prepared by the Board, he is told that if he does not sign, the matter will be referred to Washington, with the threat that the parent Board in Washington will demand even more.

Instead of the procedure outlined by law, which provides for renegotiation leading to agreement between the manufacturer and the Board, or if necessary, court

action to adjudicate the matter, we have a summary decision by the Price Adjustment Board resulting in a peremptory demand against which there appears no recourse under present circumstances, save by Congressional action.

The Price Adjustment Board is at once prosecuting attorney, judge and jury, and to a large extent writes its own law.

The machine tool industry takes this opportunity to present to the public the facts with respect to its position on this subject.

Machine Tools — A Story of Peaks and Valleys

The machine tool industry is small by comparison with many of America's industries. It consists of some three hundred companies which in pre-war years seldom had a combined annual output valued as high as \$200,000,000.

The industry builds the machines used to cut and shape metal.

Machine tools have a long, useful life. On work requiring the highest accuracy they are frequently kept in place for the work for which they were originally purchased up to ten years or longer. Thereafter they are shifted to other departments or sold to other plants for work requiring less accurate or less modern machines. By so shifting down the line, machine tools may be kept in production for forty years or more. Depreciation results from obsolescence and gradual loss of accuracy. Practically speaking, they hardly ever wear out.

By far the largest part of the production of the country is therefore ordinarily done on machine tools that are more than ten years old.

Manufacturers buy machine tools only when their present equipment is inadequate to meet a rising demand for their product. When their output starts downhill they stop buying new equipment and use what they have.

The curve of machine tool output therefore, is a story of sharp, high peaks and broad, low valleys, as illustrated by the comparison to the trend of industrial production in general on the following page.

Obviously in an industry of this character, reserves must be set aside during the "peak" years to carry through the "valley" years.

World War II Machine Tool Peak

Machine tools are as essential to the manufacture of the weapons of war as they are to the making of products of peace.

Long before hostilities were forced upon this country, American machine tool builders were called upon by the metal working industries of Great Britain, France and Russia, to help retool those countries for defense.

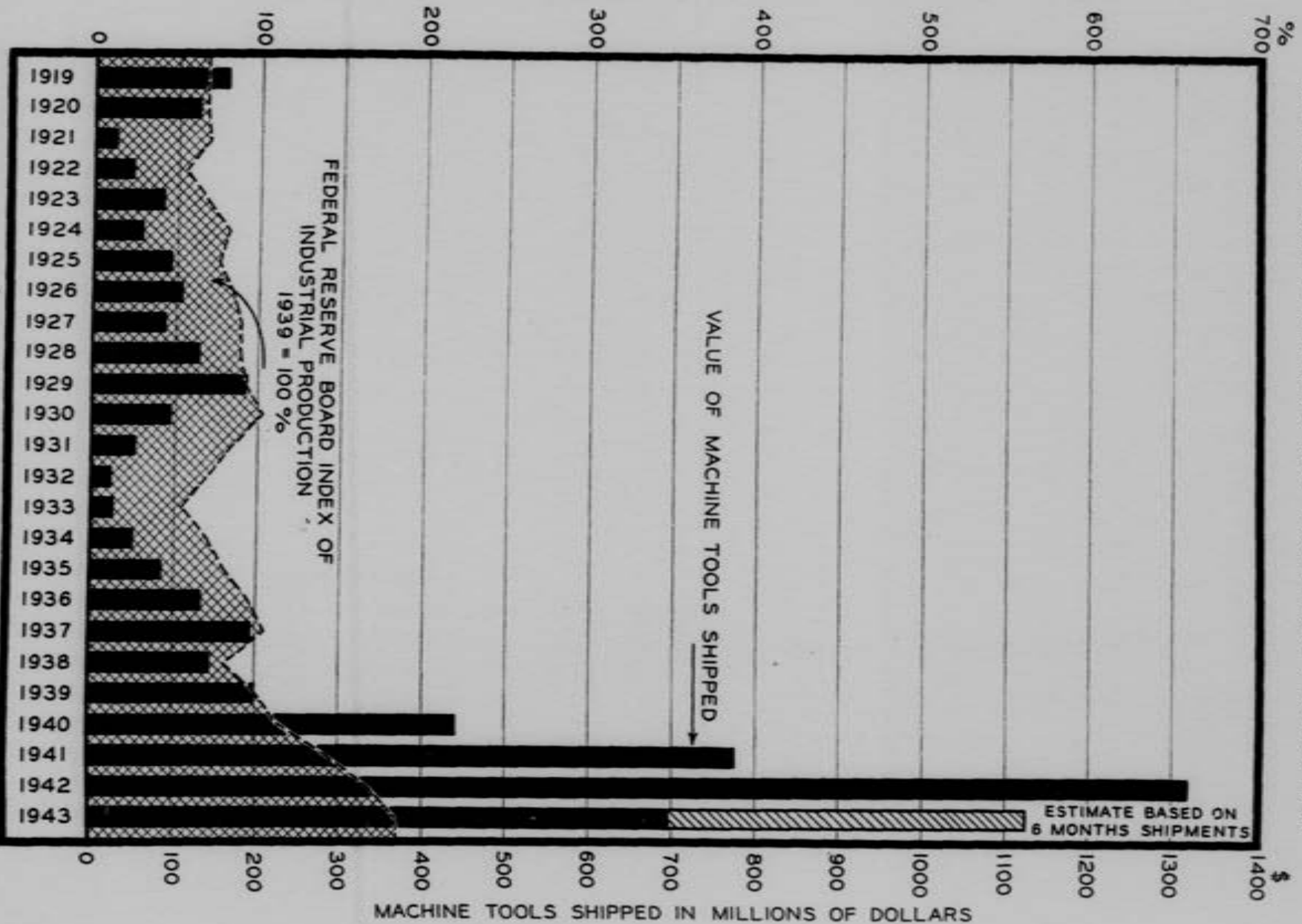
Over a third of the output of American machine tools in 1936, 1937 and 1938 was shipped abroad for the rearmament programs of those countries. Two-thirds of these exported machines went to England alone.

By the middle of 1939 our machine tool builders, of their own volition and with their own money, had already expanded their plants and were training thousands of new men to supply the needs of the United Nations.

The advent of our national defense program found the industry prepared, and when Japan's treach-

PEAKS AND VALLEYS OF MACHINE TOOL DEMAND MACHINE TOOL SHIPMENTS AND INDUSTRIAL PRODUCTION

MACHINE TOOL SHIPMENTS AND INDUSTRIAL PRODUCTION IN PERCENT OF 1939



ery forced the United States into war, machine tool builders were *ready*; with machine tools designed for mass war production, with expansion of plants and training of men well begun.

The industry had by January 1, 1942, invested all of its earnings of the preceding five years — and more — in expanded plants and facilities.

Without the groundwork they had laid on their own initiative we would not now have defeated the submarine in the Atlantic; we would not now have air superiority over the Mediterranean; we would not now have seized the initiative in the Pacific.

Machine tool output was stepped up from \$200,000,000 in 1939 to \$400,000,000 in 1940, \$775,000,000 in 1941 and \$1,320,000,000 in 1942.

The peak of *orders* placed with the industry was reached in March, 1942.

The peak of *production* was passed in January, 1943.

Beginning in February, 1943, output could be permitted to decline gradually, so that by mid-summer new machine tool orders ran less than a quarter of the volume the industry was required to build in the preceding year.

In short, the industry's war job, as concerns the building of machine tools, is almost finished as this is being written, and the industry is even today headed for another of its traditional valleys.

How Deep Will the Next Valley Be?

The machine tool industry is not greatly concerned about its situation during the remaining period of the war, for already its plants, equipment and skills are being partially turned to production of direct war equipment. The great dilemma of the machine tool industry arises when war production ceases.

When that time comes, American metal working plants will have installed and ready for operation on their floors, more than five times as many new, modern machine tools as they had in operation in 1929.

Stated another way — in the ten years preceding 1939 the average annual output of the industry was about 25,000 machine tools. By contrast, in the three years ending in 1943, machine tool builders will have produced about 700,000 machines.

Over 85% of these machine tools, produced for the war, are of the same type as the machine tools in everyday peace-time use, and some of them are already being diverted from war work to the production of non-war goods.

Because of improvements in design and materials, these machine tools, regardless of strenuous use during the past three years, will be capable of operation for at least fifteen years longer.

In short, even if our domestic economy should be maintained at top levels during post-war years, and we hope it will, there are now more machine tools standing ready and available in America than could conceivably be needed to turn out all of the products required for peace-time purposes for a long time to come.

There is talk in some quarters of possible export markets that might absorb a share of the post-war American supply of machine tools. In this connection it must be borne in mind that for war purposes England, Germany and Russia have during this war likewise been building fantastic quantities of machine tools. South America and the Far East are limited markets at best. There would seem little prospect that exports will have any major effect on the post-war machine tool situation in the United States.

Post-War Machine Tool Markets

What, then, is the outlook for post-war machine tool markets? At this writing, they would appear practically non-existent.

Eventually machine tool builders, as they have done in the past under similar circumstances, will engage in research and development, redesign machines, introduce new models, and slowly regain markets.

But this takes time, and above all it takes money — money to finance research and development, money to pay workmen, money for building, testing and selling new models. The engineers and mechanics that the industry has developed are the very foundation for these developments. Once lost, they can be replaced only with difficulty, and after long training.

It is money for these purposes which machine tool builders are striving to retain out of the earnings of their war production period; and herein lies the crux of their inability to agree with the findings of the Price Adjustment Boards.

To make clear how sharply the machine tool post-war outlook differs from that of other industries, consider by way of contrast, industries such as automobiles, refrigerators or radios.

For instance, take the refrigerator industry. In 1941 it sold 3,500,000 electric household refrigerators. Since then neither materials nor facilities have been available for their further manufacture in anything like this quantity. Meanwhile refrigerators are wearing out. A vast potential post-war electric refrigerator demand is being built up.

During the war, companies formerly manufacturing refrigerators have converted their plants to war produc-

tion. The moment war is over and they return to their regular product, think of the business which will be theirs!

But suppose that household refrigerators had been necessary for the prosecution of the war, and that the nation's refrigerator companies had, during the war, supplied the nation with ten times as many refrigerators as it would normally need in time of peace. What then would be the post-war outlook for the refrigerator industry?

That is exactly the post-war outlook for the machine tool industry.

It is the contention of the machine tool industry that machine tool builders who have, during the war, supplied their market at least ten years in advance, should be permitted to retain a larger share of their earnings than need be retained by companies whose post-war markets are by contrast building up toward new highs all through the war period.

Original Purpose of Renegotiation

It seems clear that Congress set up the machinery of renegotiation for the particular purpose of recovering a larger share of "windfall" profits than would be recovered by taxes alone.

A typical instance is that of a war product on which there had been little or no production experience. Lacking knowledge of costs, the price was set high enough to allow for contingencies. With production experience and volume far larger than anticipated, costs proved to be far below estimates and earnings were correspondingly greater. The tax laws, operating upon a fixed percentage basis, do not provide adequate correction for such circumstances. Renegotiation was

set up as a supplementary means of siphoning off that part of the earnings which obviously were out of line.

We doubt seriously whether renegotiation should be applied to companies manufacturing products on which the cost was known at the time the contract was entered into. That is the case with machine tools. Price ceilings on machine tools were set by OPA long before renegotiation legislation was enacted by Congress.

Furthermore, we doubt whether renegotiation should be applied to companies furnishing to other manufacturers standard equipment of a type having universal use in time of peace as well as in time of war, and with a useful life extending far into the post-war period.

The Price Adjustment Boards, however, have proceeded to apply renegotiation well-nigh indiscriminately throughout the entire war production picture.

The machine tool industry does not object to the principle of recovery of excessive profits. In the machine tool industry, just as in many other industries during the war, the unexpected increase in volume has made possible dollar profits larger than anticipated. It is believed that in some cases a larger share of such profits than is taken by taxes should be returned to the government. The industry disagrees with the Price Adjustment Boards on the *amount* of profits to be returned.

A portion of these profits represents earnings that under other circumstances than war would have been made over the next ten years or more; war production having simply anticipated the country's normal requirements of new machine tools by that amount. The industry seeks to retain against those next ten or more lean

years a reserve sufficient to enable it to carry on, believing that a broken machine tool industry may cost this country its supremacy in productive efficiency.

The industry therefore seeks to retain sufficient earnings to set up reserves against the impending post-war machine tool depression. This the Price Adjustment Boards have thus far been unwilling to grant.

Effect of the Excess Profits Tax

In the Revenue Act, Congress has established the rate of profit for the years 1936 through 1939, as a "normal" level against which to measure the amount of earnings that shall be subject to a "normal" tax. An "excess profits tax" is then applied to all earnings above that amount, of which ten per cent is earmarked for return to the taxpayer after the war is declared ended.

The excess profits tax is fair enough in principle. It makes no allowances, however, for the fact that in some businesses variations from year to year are more extreme than in others in output or services rendered.

The machine tool builder, who has to contend with an extremely spasmodic demand for his product, has *got* to earn more in the good years to carry him over the bad ones. Since it is only in the good years that the excess profits tax becomes effective, he finds that in the very years that it would be possible for him to provide against his particular rainy day, this form of tax drains away the sums that he has learned from past experience are necessary to pay the losses of operation through the dull years that inevitably follow.

As already pointed out, the machine tool industry early undertook voluntarily an enormous expansion in order to build the machine tools required for the successful prosecution of the war. The output of machine tools

in 1942 was seven times the average for the years 1936 through 1939, even though those years were somewhat better than the average for the previous fifteen.

The relative expansion is therefore far greater for this industry than for most others, and the excess profits tax exacts a proportionately greater toll. As a result, machine tool builders, on the average, have been assessed taxes equal to 73% of their 1942 earnings before renegotiation.

In contrast, many companies, particularly those in the consumer goods industries whose earnings in 1936 through 1939 were high in relation to their earnings in the war years, are required to pay taxes as low as 55% of their 1942 earnings.

The machine tool builder regards the excess profits tax a form of renegotiation, insuring against the likelihood of anyone in this industry making excessive profits out of this war.

To make a bad matter worse, the Price Adjustment Boards not only give no consideration to the effect of taxes, but they, too, use the tax-base years 1936 through 1939 as a measure of what a company should regard as a "normal" profit before taxes. So the unfortunate machine tool builder who had a relatively low profit in these years is twice penalized; first by the excess profits tax itself, which exacts a larger percentage of his earnings than from most companies, and again by the Price Adjustment Board's policy of basing his allowable earnings before taxes on the 1936-39 experience, which bears no relation to his contribution to the war.

The Price Adjustment Board's policy is not based on any provision of the law as Congress passed it, but the only remedy seems to be a Congressional enactment that the task of the Price Adjustment Board shall be

to recover any profits which appear to be excessive *after* taxes.

The machine tool industry believes that this and other policies adopted by the Price Adjustment Boards in their renegotiation procedures, are not fully understood because of the use of certain terminology which is misleading.

Confusing Terminology

After completing renegotiation with respect to a company, the Price Adjustment Board in many cases publicly reports the amount of "profits on readjusted sales" remaining for that company after renegotiation.

Here is an example:

Suppose a company had a volume of \$1,000,000 in 1942, with earnings of \$200,000 before taxes.

The Price Adjustment Board, on reviewing the company's figures says that \$100,000 must be returned to the government.

This sum is then subtracted from the total volume of \$1,000,000, and the result: \$900,000, is called "readjusted sales".

The amount of profit which the company is permitted by the Board to retain after renegotiation is then announced as "11% of readjusted sales".

In the first place, this figure obviously is *before* taxes, and secondly, although it represents 11% on "readjusted sales" before taxes, it represents only 10% on the total of actual business done.

The Price Adjustment Board may say for instance that a certain company is permitted to retain a "15% profit on readjusted sales".

But the management, who must give the shareholders of the company a strict account as to the actual state of affairs, may have to report that after taxes and after renegotiation the company earned a net profit of only 4.05% on its total business.

The Price Adjustment Board's method of reporting percentage of profits on "readjusted sales" after renegotiation inevitably conveys to the public a false impression as to the profits allowed. We do not suggest that such an impression is given deliberately, but the fact remains that the public is misled by such reports. The investor who reads in the morning paper that his company has been permitted a profit of "15% on readjusted sales" learns the disappointing truth from the company's report to its stockholders that the actual net profit is only 4.05%.

"Profits Before Taxes"

When the Price Adjustment Board announces that a company has been allowed to retain 15% profit on readjusted sales, it means "profits before taxes".

Actually there is no such thing as profit before taxes. In the minds of business men, or the people who have put their savings into the common stock of a company, a "profit" is the amount left after all costs have been paid. None of the earnings are available to the investor until the taxes have been paid.

Because of the unequal workings of the excess profits tax, the company that is allowed to retain 15% "profit on readjusted sales", which may be but 11% on its actual gross income for 1942, may retain only 3% after taxes are paid. And it is out of that 3% that the company must provide reserves against future operating losses before those who have invested their money in the enterprise may receive one dollar in dividends earned.

The resolute insistence of the Price Adjustment Boards that only "profits before taxes" can be considered or discussed has one important result. It creates the impression that the boards are far more generous to the manufacturer than they really are.

The assertion that machine tool builders have been given preferential treatment because of the nature of the industry, has been supported by the statement that five brass companies have been allowed an average of 7.8% while ten machine tool companies were allowed 13.3%. This is very misleading unless we find out what these brass companies and machine tool builders paid out in taxes. For these are "profits before taxes" and on "readjusted sales".

At the time that statement was made, Defense Plant orders, which were a very large part of 1942 machine tool business, were not included in renegotiation. Machine tool builders could retain the full profit after taxes on this portion of their business, which varied from a quarter to a half of their total output. That situation has changed since July 2, 1943. Any "profits before taxes" allowed machine tool builders before July 2, 1943, (as in the foregoing statement) are therefore subject to revision and must not be regarded as conclusive.

Ratio of Profits to Net Worth

The Price Adjustment Boards make a great point of the ratio of profits to net worth. This ratio taken by itself is meaningless.

The "net worth" of a company is nothing more than the difference between its assets and liabilities.

For example, suppose that a company has net assets of \$100,000 and liabilities of \$80,000. Its "net worth" then would be \$20,000, which is invested in

buildings, equipment, inventory, and cash or liquid assets. Suppose in a given year that company earns a profit of \$4,000. That profit could be stated as "20% of net worth".

Now suppose this same company, under the pressure of war expansion, borrows \$100,000 and puts up a new plant. In that case it has added \$100,000 *both* to its assets (investment in plant) and its liabilities (the notes covering the borrowed money). Again subtracting its total liabilities from the total assets we still get a "net worth" of \$20,000, but the company may have done twice its former volume of business, and therefore its profit may be \$8,000 instead of \$4,000. Its profit on net worth would then have increased from 20% to 40%. In other words, by increasing its debt risk and to that extent jeopardizing its financial position to meet the exigencies of the nation's war needs, it has doubled the amount of its profit in relationship to its net worth.

Is the ratio of profit to net worth a proper basis upon which to consider the amount of profits to be recovered by the government through renegotiation? If this ratio is to be taken seriously it means that the company which has gone into debt the deepest and is in most need of funds with which to make repayment is the very company which should have the largest share of its profits taken away by renegotiation.

Under the pressure of war demand the machine tool industry could not have attained the requisite degree of expansion without the investment of additional funds. In view of the post-war outlook it must be borne in mind that the companies which added new capital, either their own or borrowed funds, for expansion purposes have greatly extended their risk as far as the future is concerned. To penalize these companies by

using the ratio of profit to net worth as a renegotiation yardstick is, we submit, clearly unjust.

Renegotiation Payments in Cash

Many people apparently have the idea that net profits exist in cash. This is rarely the case.

By way of illustration — consider the machine tool company which is permitted, after taxes and renegotiation, to retain a nominal profit. In what form is this profit?

On the basis of average experience in the industry, the probability is that at least three-fourths of this profit exists in the form of buildings, equipment and machinery, materials and supplies, and parts of the products in process of manufacture.

Suppose peace is declared tomorrow.

Can a company meet a pay-roll out of buildings, equipment and inventory?

Can a company finance a program of research, development, redesign and merchandising, out of buildings, equipment and inventory?

Is there any way when the war is over whereby a machine tool company can convert that portion of its profits represented by buildings, equipment, and inventory into actual money without borrowing, and further extending this risk or selling at a substantial loss.

To be sure, the machine tool builder may look forward to a return of 10% of his excess profits taxes in the fiscal year next following the one in which peace is declared. Fighting ended in the last World War on November 11, 1918. Peace was declared when the President signed Senate Joint Resolution 16 on July 2, 1921. If history repeats itself, and if fighting were to stop in

November, 1943, this post-war tax refund may be expected in 1947. This would hardly assist the machine tool builder to solve the problems he would face in 1944.

The extent to which net profits are represented by buildings, equipment and inventory brings to the fore another difficulty of renegotiation; the fact that renegotiation payments must be made in cash.

A company cannot pay either taxes or renegotiation refunds in bricks, machines or parts. It must make its renegotiation refunds in actual money. Where is it going to get the money?

The answer to this question is apparently of no concern to the Price Adjustment Boards. In one case which has come to our knowledge, that of a small company which did a total volume of \$750,000 in 1942, the Price Adjustment Board stated flatly that the Board did not care in the least whether the profits of the company were frozen or whether any of them remained in cash.

Some companies are fortunate enough to have the requisite amount in hand; others must borrow. In either event the company is obviously stripped of a large share of its current working capital, and put in a position from which it cannot recover. A sizeable portion of its cash has been taken away and it sees before it only another cycle of taxes and renegotiation. Knowing full well that once peace is declared its markets will be practically non-existent for years to come, the machine tool company must nevertheless face this period with empty pockets. The question of survival is not theoretical.

The Arbitrary Nature of Renegotiation

In considering renegotiation, it must be borne in mind that unlike tax procedures, renegotiation is not a matter of mathematical formula.

Our tax laws specify certain percentages of earnings which must be returned to the government.

But under renegotiation, the additional amount of earnings which must be returned to the government is purely and solely a matter of the *judgment* of the Price Adjustment Boards. In short, renegotiation becomes a matter of taxation by men rather than taxation by law.

The situation is, to say the least, new in the annals of American taxation procedure. Heretofore taxation has been governed by rules. Now the judgments of men supersede the rules, and we have groups of people who have become a taxing authority over and above the Internal Revenue Department — men who hold in their hands, and can dispose of as they will, the post-war destinies of American industry.

Effect Upon Machine Tool Builders

The machine tool builder appears before a Price Adjustment Board with four critical problems which remain unsolved:

1. Because of his large increase in volume by comparison to the pre-war tax-base years, he is subject to an excess profits tax higher than that of many other manufacturers.*
2. Now that Defense Plant Corporation business is included under war contracts, the percentage of

* The machine tool builders are not alone in this. Excess profits taxes bear heavily upon many other production equipment industries. The whole group faces conditions similar to those ahead of the machine tool industry, and has a like need for special consideration under renegotiation.

business which will be construed by the Boards as subject to renegotiation will be higher than for a manufacturer in most other industries.

3. He has sold out his market for the next 10 to 15 years — whereas many other manufacturers, especially those in consumer goods fields, are looking forward to an enormous post-war demand for their products.
4. Competition of war built machines in the new machine market already has begun. Machine tools built for the production of war materiel even now are being converted to production of peace-time goods. Examples may be cited of machines used less than a year on war work, and now turned to the production of peace-time equipment.

Including Defense Plant Corporation contracts, very few machine tool companies have completed renegotiation. Judging from the demands thus far made by the Boards, the industry is convinced that unless some change occurs in procedure or in the law, they will not be permitted to retain sufficient earnings to enable them to set up the post-war reserves required by the peculiar circumstances of their business.

The question is not merely one of renegotiation of business done between April 28, 1942, when the law went into effect, and the end of the year. What about 1943 business? And 1944?

To the machine tool builder the present situation means that the very companies who are most in need of building up post-war reserves are those who will have the least chance to do so.

Following the last World War when taxes were nowhere nearly as heavy as they are today and renegotiation was unknown, many machine tool companies went

out of business. If no remedy is forthcoming the extent to which today's machine tool companies may be able to weather the post-war storms is problematical.

The Remedy

The machine tool industry urges immediate Congressional action. It is apparent that the remedy should take the form of an amendment to the renegotiation law. The following principles are suggested:

1. Renegotiation on the basis of profits before taxes should be abandoned. Agreements should be made wholly in the light of profits after taxes. Any other approach brings disagreement and demands that are inequitable and unjust.

2. The extent to which a company's product is expendable in the war effort should be taken into consideration in determining the amount of the company's earnings to be recovered by the government through renegotiation. In short, due allowance should be made for the peace-time use inherent in the equipment after the nation's war needs have been met.

3. Companies which have saturated their post-war markets by reason of their war-time production should be permitted to retain out of their earnings the reserves necessary to maintain their service to the industries dependent upon machines already installed, to finance the engineering research that leads to new developments, and to finance those new developments through the stages of experiment to production for use. Only by this means can the American machine tool builders maintain employment and restore their market position in the post-war period.

There is to be considered, in this connection, not only the responsibility of the machine tool and similar

equipment industries to maintain employment and train men, but the fact that the capacity of this nation to produce machine tools of great accuracy, produce them quickly, and in quantities as needed, is essential to national defense and to a sound national economy. Post-war improvement of productive equipment and employment are major economic considerations — but of even greater importance is the need to keep America in proper position for instant retooling for war, should that need arise.

