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2:00 p.m., December 10, 1940

Address by Chester C. Davis,
Commissioner in charge of the Agricultural Division of the
National Defense Advisory Commission, delivered before the
Twenty-second Annual Meeting of the American Farm Bureau
Federation, Lord Baltimore Hotel, Baltimore, Maryland, at
2:00 p.m., Tuesday afternoon, December 10, 1940

AGRICULTURE AND THE DEFENSE PROGRAM

The American Farm Bureau was born out of the travail of the last World War. You are meeting today in your twenty-second annual convention with the old world falling to pieces about you. Even from our comparatively safe vantage point 3000 miles away from visible dissolution the outlook is unspeakably grim. Unbelievable events have come to pass in the last year, and other incredible things are ahead of us.

The United States is not escaping and cannot hope to escape the profound consequences in our way of life which must follow the chaos abroad. Not in our time will the old comfortable habits of thought and action return to serve us.

Two years ago we were certain of many things. In fact, we knew too many things that weren't true. Since then the keystone of our thinking on international affairs has dissolved. That was our conviction that a nation which minded its own business and respected the rights of its neighbors would be left free to develop its way of life in its own sphere.

That rule hasn't worked in Europe and Asia. Few can be found today who are certain that it will continue to work here. On the contrary, another rule is proclaimed and is being demonstrated. In its force and power are all that count --- and the demonstration hasn't been ended yet. There is no limit to it except the limit imposed by fear of another and a greater force.

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Wealth and resources, mountains of gold and millions of acres of factories, are not power in the equation that is known over three-quarters of the world today. They can be organized into power; until then they are just bait.

We can honestly disagree over the likelihood of serious war being launched against the United States at home from either Europe or Asia; but we cannot disagree with the proposition that the likelihood recedes as our armament advances.

This is a new concept for many of us. At home we common everyday men and women are confused and baffled. Many of us are gripped by a growing pessimism as to man's ability to run the machine he has created. Our individual troubles are coming to seem petty to us, compared with the colossal horror that is astride the world. Its swift growth did more than blot out the peaceful Scandinavian democracies and the well-ordered life of the Low Countries. It inevitably has changed the pattern of our own life now and for the future.

I am speaking today on the assumption that the United States will not enter the war in Europe but that, short of sending men to fight, our physical resources will be made available to those who still resist aggression. I am speaking on the assumption that we will really mobilize our resources to the full, so that we will be entirely unassailable in this hemisphere. We haven't done it yet. I do not believe most of us have realized what the syllables "total defense," "total effort," and "complete mobilization" actually mean.

We use the words, but their significance in terms of our own activities and prejudices hasn't struck home to us yet.

Men are going to work as the armament effort spreads, but we still have millions of men unemployed. We haven't even developed plans that will put them to work without uprooting them and shifting them into areas which will inevitably become crowded beehives when the nation hits its stride in maximum production.

We can make the plans that will make full use of our manpower and our material resources and we can put them into effect. We can do it in a democracy. We can organize and execute an armament program beyond anything the world has ever seen in any country and still produce for our civilian needs. But we cannot do it without sacrifice and without changing our point of view on many things. It will not be possible to have full production for both defense and the maintenance of our standard of living if the important elements in our economy - industrial management, capital, labor and agriculture - successfully resist any modification of their traditional platitudes.

If there is likelihood that more capacity will be needed to produce essential industrial raw materials to meet both defense and normal requirements, then additional plant capacity must be provided regardless of the quite understandable apprehension of industrial management over the peacetime use of such facilities. In the beginning the English steel industry and the English machine tool industry were unwilling to sacrifice profits and security by increasing capacity and taking advantage of new production methods. This experience should be all the warning we need on that point. As long as supply

can keep up with the demand, general price increases are not necessary.

Labor confronts the serious challenge of supplying the manpower which this effort requires and doing it without contributing substantially to the vicious spiral of rising wages, costs, profits, and prices, which could work deadly impairment of national efficiency in the job at hand. That means that future needs for skilled and semi-skilled workers must be anticipated and met. Untrained or semi-trained workers must become skilled notwithstanding the fact that at some future time all these trained workmen may not be required in their particular lines. The task is to use these millions of unemployed in productive work when and where need for them arises. As long as the supply can keep up with the demand and as general price increases are avoided, general wage increases are not necessary. Neither, so long as there is an unimpeded flow of idle workers to jobs, is there any present necessity to increase working hours.

Farmers will have their own and very serious adjustments to make. Defense needs may require that domestic production be supplemented by increased imports, as we see happening in the case of some grades of wool. Cooperation with Latin America may require farmers to re-examine most critically some of their traditional patterns and prejudices.

These are only a few examples, far from complete, of the areas in which national and group patterns will have to change if the defense effort is to meet the challenge we have taken up. I repeat -- we use the words "total defense" and "total mobilization" rather carelessly. On the whole, we in America haven't even stopped to think what they really mean.

Six months ago I was appointed to membership on the civilian body intended to assist in the speedy and orderly development of the defense program. My particular interests are to see that the effect of the defense moves are interpreted to farmers and to the institutions that serve them; to help see that agriculture is organized to do its part; that its viewpoint is understood and considered in the steps that are taken; and finally, that defense industries and the vast volume of new business that supplies them are planned and guided so as to reach reservoirs of unemployment and avoid overconcentration in areas that are certain to become overcrowded when the heavy industries reach full production.

On that last point it has seemed to me to be vitally important that the unemployed in rural areas and the millions of ineffectively and unsatisfactorily employed men and boys on the farm have the same opportunities for employment as those who are listed on the rolls of unemployed in the cities and towns

I want to take a little time to discuss this last line of interest - the location of defense industries. It sounds very simple to say that these industries should be located throughout the interior of the United States avoiding areas whose workmen and facilities are certain to be fully employed anyway. In fact, it is anything but simple. The location of new plants and the placing of orders for the first stage of the program is nearly completed. That first stage aims to provide facilities and equipment for an army of 1,200,000 men and at the same time maintain and increase the flow of supplies to Britain. The fact that in some respects location of plants has been so poorly done from the standpoint of industrial decentralization is not due to any lack of interest or sympathy on the part of the Army or the Navy or the National Defense Commission. The trouble lies in the lack of planning for

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the situation that has developed.

For 22 years the business of the United States has been peace, not war. Even planning and preparation for war has been discredited. Now the whip of speed forces decisions which might have been avoided had plans to that end been made in advance. I am hopeful that if and when new stages of preparation involving new facilities and new production are authorized for the United States and for England, we will be in better shape to do a better job than we have done heretofore. By better shape I do not mean that the plants and facilities that have been located heretofore will not produce efficiently the materials and the implements they are designed to turn out. I mean that the additional units would be located where they can tap resources of materials, facilities and men heretofore untouched.

On the human side and to minimize the aftermath, it is important that we avoid so far as possible drawing men from the mountains and the prairie, from farms and interior cities and towns to crowd them into industrial centers hundreds of miles away. It is far better to leave as many as possible on farms but give those with low incomes opportunities for employment in industry. This would lessen the immediate need for housing and provide a measure of security when the emergency has passed.

Let me illustrate what I mean by lack of planning. Two of the important elements of modern explosives, of TNT and smokeless powder, are ammonia and sulphuric acid. Ammonia can be fixed from the air. Its first stage in large-scale production requires the use of large quantities of coke. The only two large commercial plants manufacturing synthetic ammonia from coke are located in the East and they use high-grade metallurgical coke from the coal fields of one limited section of the country. That is, therefore, the only kind of

- 7 -

coke with which we have had big-scale experience in the United States. Practically nothing has been done to determine whether, in the practical operation of a large ammonia plant, coke from western coal or lignite fields can be used satisfactorily.

Until tests have been made the War Department, facing immediate need for ammonia to convert into nitric acid or ammonium nitrate, naturally turns to plants that can draw coke from these same areas. Unless these tests are made, no matter how much ammonia is required, the new plants will cluster around the West Virginia and east Kentucky coal fields. Arrangements have been made with the Bureau of Mines to go ahead with comprehensive tests of other coal. From the standpoint of decentralization much depends on what their research discloses. It would have been fortunate if these experiments had been made long ago.

The location of a TNT plant is largely determined by the existence of an adequate supply of highly concentrated sulphuric acid, and a nearby market or use for the spent acid from the process. Conspicuous points where supply and spent acid market exist are Cleveland, Chicago, St. Louis and Buffalo. Sulphuric acid, however, can be easily produced anywhere if supplies of sulphur or certain substitute materials are available. Sulphur comes from the Gulf Southwest. The largest use for sulphuric acid in the United States is in the manufacture of super-phosphate fertilizer for agriculture, and plants that use it are scattered thickly through the area of fertilizer's heaviest use from Texas to Virginia.

When the need for TNT hit the Army, it was natural that its officers should turn to the points where the specified condition with respect to sul-

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- 8 -

phuric acid was known to exist at the present time. I am satisfied that sufficient thought and planning have not been given to determine in advance whether or not arrangements can be made in connection with fertilizer manufacture which will vastly extend the areas in which these explosives plants could be located.

When the ammonia, ammonium nitrate and TNT sites are chosen, their location in turn influences the choice of bomb and shell loading plants, smokeless powder plants and factories for these secondary operations. I mention these things in some detail not because they are interesting in themselves but because they throw some light on the complexities of the problem of site selection.

I believe they illustrate another need. I believe that provision should be made for building up within the Army, with adequate rank and compensation, a strong body of scientists drawn from civilian life, technically trained men who know the problems that have arisen in this new kind of warfare even though they haven't been trained to direct men to march and shoot. Modern warfare is no longer a question of numbers of men and numbers of guns. It is a question of industrial organization, of technical and scientific skill. Private industry naturally develops on lines applicable to present-day manufacturing and commerce. They do not necessarily meet the needs of modern armament. On the other hand, the Army at its arsenals carries on limited experimental work in peacetime devoted mainly to the old type of warfare. There is an ever-widening gap between them which needs to be filled. To direct this work the Army needs within its own organization a large number of the best men who can be drawn from civilian life into its service, organized on the scale so admirably attained in the Army Engineering Corps and the Army

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Medical Corps. I believe provision should be made now and never abandoned for such a dignified career branch of the Army, to work in advance on problems of this character so that the country need not again be caught with inadequate plans.

There are other kinds of planning to which the people of the United States must be giving thought. Under the impulse of vast appropriations and expenditures this country is going to move forward toward a period of comparatively full employment of its resources and its manpower. An infinite number of problems surround us as we move along that path. I want to mention a few of them.

We hear a great deal of talk about the dangers of inflation. I realize that the definitions of that term are numerous and varied. I want to talk about two kinds. The first results when, even though we have idle men and idle plants, supply is permitted to lag behind demand, bottlenecks develop and prices start their spiral. The second is a type of monetary inflation which manifests itself when comparatively full production has been reached, but the rate of business activity is such that the creation of money through credit expansion continues uncontrolled and unchecked.

A price inflation of the first sort is due to non-monetary causes. It might result from monopolistic practices on the part of industrial management and labor, short-sighted price and wage policies and related causes which give rise to bottlenecks of one sort and another. These bottlenecks do not necessarily result from a shortage of manpower or from a shortage of facilities that exist or can be constructed.

The cure for a condition like that is not less, but more production.

Monetary action cannot relieve or affect it, except perhaps adversely.

As I see it, the risk we run is that conditions of this sort may develop and that an upward surge of prices in some parts of the economy will throw heavy disadvantages upon other parts. I believe if these conditions come they would operate to the particular detriment of agriculture; also, they would adversely affect unorganized labor and the low and fixed income groups.

To prevent them it is essential that we anticipate where facilities need to be expanded and that, if we make mistakes, we make them on the side of too much capacity. It is essential that business and labor avoid strikes and lock-outs that interfere with the flow of production; that forward buying and excessive inventory hoarding due to fear of higher prices be discouraged. At interim periods before new facilities can be brought into production it may become necessary to substitute allocations and priorities for the free operation of prices. These can be avoided if production is increased to keep pace with expanding demand.

This will involve construction of new plants that may not necessarily be required in peacetime; it will involve speeding up widespread apprentice and vocational training of labor, and the maintenance of the already expanded farm plant with management that is alert to changing needs.

Before considering the second type of inflation, where full production has been reached but the creation of money continues, it is important that we take a look at the monetary background. We have at the present time in the United States by far the largest supply of money, no matter how that term is defined, we ever had. The amount of currency in circulation is double the

volume of 1929. The total of demand deposits and currency now amounts to 41.5 billions of dollars, or nearly 15 billion above the peak of the boom period in the 'twenties. As a result largely of continued inflow of gold into the United States, the volume of excess reserves in the banking system has mounted to 7 billion dollars, which is capable of supporting a bank credit expansion of fully 60 billion dollars in addition to the present volume of deposits.

As long as these funds remain relatively inactive, they present only a potential problem. Nevertheless, looking ahead to a time when these large cash and credit resources may be turned into speculative channels under the rapid business expansion generated by the defense program, any successful control requires that new authority be lodged in those monetary authorities which will be looked to for prompt action when need develops.

You may balk at the suggestion of further governmental powers. I say to you that I see no chance that the government's share in our economic and financial life will not expand both during this crisis and in the years that follow. For the world that emerges is not going to be the world we have known.

These limited suggestions I have made do not constitute a complete program. It is essential that production and monetary policies be synchronized with government taxation and borrowing. The government must borrow heavily during the lag between the time of huge defense disbursements and the subsequent rise in national income which will yield increased tax revenues. It must tax heavily when production is full, but care must be taken as to the form and timing of taxation if it is to promote and not upset economic progress and stability. Additional consumer and sales taxes do not fit the nation's

- 12 -

needs as long as widespread unemployment prevails and while we are striving to speed up production. And in taxation above all else, every element in our economy must recognize this one fact - no one is entitled to get rich as a result of this nation's expenditure for its defense.

Beyond all this it is of vital importance that we get ready for the aftermath that will follow this war and the cessation of defense expenditure. We cannot afford to go into that period planless. We can't turn men out from the armed forces and defense production into the breadlines. It is important to perfect plans now for useful projects which contribute to the general wealth of the nation to which these men can turn. Blueprints of completed projects can be drawn and tucked away to be called into use when need develops. The President of the United States has announced his determination to follow just that policy.

I do not mean to imply that the government must contribute all and private industry nothing in meeting these problems. Quite the contrary. Because I do not think I could myself say it as well, I want to quote briefly on that point from a recent address by my associate, Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System. He said:

"Underlying my approach to all of these problems is my belief that democracy and the system of free enterprise can function to provide reasonably full and sustained employment for all of our available man power, in peace as well as in war times. The great bulk of that employment is and

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must be provided by private enterprise. Public policy, therefore, should be directed to creating an economic climate that will give the greatest possible encouragement to private initiative and private enterprise that is consistent with orderly and continuous national progress."

Let me turn briefly to the situation of agriculture. That is one segment of our economy which is producing and has continuously produced all that the nation requires of it of the commodities it normally yields. Our storehouses and bins are full. It is well that that is so. We are the envy of the other industrial nations of the world in that respect.

Some branches of farm production will be stimulated both in demand and price as consumer employment and payrolls increase. Other important crops which have depended largely on foreign markets now almost wholly destroyed will suffer. Under present and prospective conditions there are too many people trying to grow cotton and tobacco and in some areas wheat. Many of them cannot earn a decent standard of living at it. The real job is to provide new sources of income for them.. Industrial employment near their homes would help.

I hope no one, whether he live on the farm or in the city, will get the idea that we are facing a war boom for agriculture as a result of war markets for farm products. I say to you that after a generation we have not liquidated the disaster of the last world war and that we cannot emerge comfortably from this one.

- 14 -

Early in my remarks I said that cooperation with Latin America may require farmers to re-examine most critically some of their traditional patterns and prejudices. Our hemispheric relationships and problems ought to be looked at clearly and courageously by every organized farm group in America. We cannot be military friends and economic enemies with Latin America at one and the same time. Obviously we cannot import from the southern temperate zone for consumption in this country agricultural commodities of which we already have large surpluses. But with our vast resources we can help them through their critical times. We can assist in the development of many things which we need to import but which we are not getting in volume from the tropical countries to the South. The Department of Agriculture is cooperating in the long-time effort to develop rubber production on this hemisphere for this the greatest rubber market in the world. We can help develop sources of supply of tin, quinine, tropical hard woods, cocoa, coarse fibers and many other things our southern neighbors now grow or can produce and which do not compete with our own production.

Even in the field where some competition exists farmers must not let their prejudices run away with their common sense. Through their organizations they must study this problem at once and with care. Economic and military dictatorships are sweeping most of the world's area into their systems. If we are to keep the western hemisphere free from their grasp, the United States and Latin America must learn to work together, to trade together, and to develop together. I hope that the farmer's voice at the council table when plans to that end are being studied will be constructive, not obstructive. I cannot go into it further, but I do want to urge that the local and national farm bureaus give it real study this winter.

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I am sorry that this address to you has been so sketchy and incomplete. Perhaps it may even sound gloomy. There is no excuse for defeatism now or later. We know we are blessed by living in the best country on earth. True, the clouds are heavy ahead. We face the grim necessity of accommodating ourselves to the world as it is. We cannot see all the way; we can only look ahead and plan ahead to the limit of our powers, and do the jobs at hand to the very best of our ability.

The world isn't what we would like it to be. It isn't even as good as we thought it was. But the destiny that shapes our ends sees farther than we can. As long as the spark of freedom and dignity for individual man lives, there is hope that today's pain is but a phase in the evolution of a new and better world - one in which freedom of thought and the institutions of free men have survived.