"THE RELATION OF AGRICULTURE TO THE NATIONAL DEFENSE PROGRAM"

Address by Chester C. Davis, Member, National Defense Advisory Commission and Member, Board of Governors of the Federal Reserve System, delivered before the 25th Anniversary Meeting of the Illinois Agricultural Association, Municipal Auditorium, St. Louis, Missouri, Friday morning, January 31, 1941.

This twenty-fifth anniversary meeting of the Illinois Agricultural Association, probably the strongest state farm organization in the United States both in membership and resources, is a fitting time and place to take a clear look at American agriculture - to look at American agriculture against the background of a nation undertaking the greatest industrial mobilization of its history in a world at war. In doing so before this Association I feel that I have the farmers and the farm families of Illinois as my audience - for your organization has reached the point where it has become synonymous with the agriculture and the farm people of Illinois. I wish farmers everywhere were so fortunate.

Twenty years ago in a momentous election, a majority of the American electorate voted to change governments in a sweeping reaction against further participation in European affairs. We withdrew after enormous sacrifices of resources and blood had been made. We turned our backs at a time when, by staying in, we might have done some good - when we might even, conceivably, have aided in securing adjustments that would have made Hitler impossible, and thus avoided the cataclysm into which the world has plunged.

Today the people of the United States stand at another crossroad. We have again bitten deeply into our responsibilities as a world power. The debate that is going on over the next step is of
profound significance. I am glad I live in a country where that
debate is possible. For it is vital that the citizens of this country
fully comprehend and intend whatever part the United States is to play.

Events of the past year have fallen with breath-taking speed
into a pattern that was utterly incredible when this Association met
in annual convention in even so recently as a year ago. These events
have forced many of us to change our convictions on many things.

We face the possibility of a future world in which Nazi Germany
on one side of us may control the lives and resources of 400,000,000
souls. Japan on the other side may emerge in control of the lives
and resources of an equal number. No man may foretell what the near
future holds for such a world, and we live in that world and we cannot
wish ourselves out of it.

Two extreme points of view are being expressed in this country
today along with every shade of intermediate opinion between them.
Out of these clashing viewpoints our national policy will be shaped.
To talk of the future, one must make certain assumptions – he must
make his own estimate of what will come about. I am speaking to you
tonight on the assumption that the United States will go all the way
in perfecting its sea, air and land armaments for modern war; will
make its resources of wealth and materials available to England without
regard to terms of repayment; that it will make no commitment to
engage with its manpower in an effort to restore the pre-war Europe
of Versailles and Locarno; and that in the aftermath we shall exercise
what leadership our resources and influence give us in the direction
of a peace under which the world can progress.

Events may destroy some of these assumptions before the Illinois
Agricultural Association meets again. I am not even sure that the
assumptions themselves are essential to the theme of my talk. Because
no matter what the outcome of the present struggle may be, let no
one delude himself into thinking that the old order of man's affairs
in this country will be restored unchanged.

I am afraid, for example, that we may emerge in a world divided
into systems of nations, each pursuing an economic policy shaped to its
own needs or ambitions and disregarding those of the competing groups
of nations; a world in which all international trade will be carried
on under close central controls, and this means, in turn, that domestic
business activity everywhere will be under more or less rigid govern-
ment direction. We have never given much thought about how to behave
in a world like that.

But the problems these thoughts raise are so far-flung and
enormous that no brief talk, like mine tonight, could even consider
them. If I am to get anywhere it is necessary to limit my field
sharply. I should like, if possible, to hold it to three topics: I
should like to consider a program of international trade for agriculture;
I should like to look at the concentration and distribution of
industrial effort in the defense program to date; and finally, I
should like to say a word of warning as to the squeeze in which
farmers may be caught if industrial prices on the one hand and
industrial wage rates on the other, get out of hand in the months
ahead.

For 130 years after the first President was inaugurated,
notwithstanding its wars to maintain political independence, to
clear and extend its boundaries, and to preserve its union, the
United States was not, economically speaking, an independent nation.
In the world family of nations we were a colonial dependency – an
outlying source of raw materials and food for Europe and a market for
European industrial goods. The United States financed its internal
improvements, the railroads for example, by borrowing from abroad.
It obtained the wherewithal for interest and principle on these borrow-
ings by exports – exports very largely of agricultural raw materials.
During that period we didn't have much of a farm export problem.

The World War changed all this – it changed everything but
our way of thinking. We no longer borrowed from abroad so we no
longer would pay the interest bill in the form of shiploads of wheat
and cotton. During most of the "twenties" we bought temporary freedom
from the need to face the issue by lending abroad billions – billions
that never will be repaid. Since 1933 we have permitted other nations
to settle their adverse trade balance with us by selling us their
gold. We continue today to furnish the ultimate market for the gold
of the world.

For nearly two decades the American farmers have been fighting
a losing battle with American mass production industries over the
division of the dollar exchange made available to pay for exports by our foreign loans, our imports, and our gold purchases. Several forces abroad have handicapped agriculture's struggle to maintain its relative share of our exports — the expansion of farm production by our former customers in their drive for food self-sufficiency; the increasing competition of new areas of agricultural production; and the growth of bi-lateral barter by which industrial nations paid for raw material imports by exports of manufactured goods.

Now our place in world markets has been further diminished by the impact of a new World War. The continent of Europe is closed to us. The chief remaining market, the United Kingdom, is not only importing less, but in its desperate effort to save dollar exchange to pay for aircraft and ships, guns, and munitions, it has cut to one-half the proportion of its agricultural imports normally bought from the United States.

In the meantime an unlimited market has been opened up for the products of our industrial machine. I am deeply concerned over the long-time consequence of these developments upon the agricultural economy of the United States.

I am not one of those who sees some especial quality or virtue in exports not possessed by a domestic demand. I am in favor of every possible aid to the expansion of consumption and use of our farm products in the United States. But the cold fact remains that more than half of our agricultural producers have been drawing a major share of their income from the production of commodities that have depended.
to a large extent on export sales - the producers of cotton, wheat, tobacco, lard and fruit. And I am not in favor of giving up without a struggle the chance for American farmers to sell in world markets. Such a loss would force on us internal adjustments so drastic as to made the early ventures of the AAA look like a Liberty Leaguer's dream of economic paradise.

I believe it is possible to choose a program now and develop it in the future that will lessen and, in part, avert that loss. Many things will need to be done. Here are some of them.

(1) Press on to develop and discover plans to increase consumption of food and fiber at home, particularly by the underfed and poorly clothed millions who live here.

(2) Continue and enlarge if necessary the policy of storing food and fiber against enlarged domestic consumption in the future or the reopening of foreign shipments. Present loan and purchasing programs have prevented the full impact of these national stores from pressing down the price to the farmer. They must be pursued courageously and administered promptly. They should not be hampered by the formulae and habits of thought that governed us in a world at peace.

(3) Provision should be made, either as a part of the pending land-lease bill or by negotiations accompanying it, whereby the United Kingdom will take from the United States the normal proportion of agricultural commodities which she must import. That England
has not done so in recent months is understandable in view of the pressure on the dollar exchange available as means of payment in this country. But pending legislation should relieve that. I would like to see provision made that will give American cotton and food the same status under the proposed plan as manufactured goods. And I don't see how it can possibly be to England's disadvantage, under the new arrangement, to insist that she buy from the United States in approximately the relative proportion she did before this war started. Up to two years ago the United Kingdom bought from an eighth to a tenth of her agricultural imports from this country. By the end of 1940 our British farm exports had dwindled to about one-twentieth. I am afraid that, if this continues, it will be increasingly hard to get those markets back. It isn't difficult for a people to change its taste in tobacco, or to learn to use another country's cotton.

(4) Europe is going through a winter of starvation as miserable as the world has known since the Middle Ages. It is true that starvation is a weapon of war, and no one can blame the warring countries for making use of it. But civilization is not advanced by starvation in the long run. We need to plan now so that we can move swiftly when a way is found to make our surplus available to the starving millions who need it, when the time for reconstruction arrives. Perhaps that will be one way in which America can contribute to a better world order when wholesale insanity comes to an end.
No matter what the outcome of this struggle may be, it will be a long time, if ever, before uncontrolled world trade among individuals is possible. Nations will be compelled to direct and control international trade in the interest of their own economies. When that time comes, farmers must insist that the government of the United States recognize the peculiar conditions of their industry. Some forms of exports are infinitely more important, dollar for dollar, than others. Years ago I said that, under conditions where dollar exchange to pay for exports from the United States is limited, sound national policy made it more profitable for us as a nation to export cotton than automobiles. I mentioned automobiles merely as an illustration, and some of the manufacturers took sharp exception to it. I repeat that assertion now. The revived purchasing power throughout the South that would follow restored export outlets would mean an infinitely wider market for the automobile manufacturers right here at home than they would lose abroad if their exports were restricted in favor of cotton. That condition needs thinking about and acting upon and right now is not too soon to start it. Even if these policies are carried out to their maximum yield for agriculture, we may find that there are still too many people growing cotton, and tobacco, and wheat, for all of them to earn a decent American standard of living at it. That is why, as one member of the National Defense Advisory Commission, I have carried insistence
upon decentralization to the point where, sometimes, I think my colleagues have wished they had never heard the word.

I believe this nation should have laid down and then carried out the principle that no new defense industries would be located in areas where the heavy industries essential to defense are now concentrated when there was any possibility of placing them elsewhere. That is the only way in which new reservoirs of unemployed labor and resources can be tapped without uprooting families and shifting them thousands of miles into communities where ebbing of the armament effort will leave them stranded.

The plans which had been made prior to the emergency for maximum war production were not based on such a principle. In carrying out the program we have made some progress toward decentralization but I have been far from satisfied. I am afraid that, in the defense effort up to date, we have followed the same pattern of regional concentration that was followed in 1917 and 1918. At that time we handicapped our effort by shortages of labor and transport and left an aftermath of over-built and over-concentrated industry. I am afraid that we will again reap some of the same harvest of economic and social consequences.

I am not trying to lay blame for this at anybody's door. Most men in the War Department agree that the principle of decentralization is right, but for twenty years the business of this nation has been peace and not war. No one in authority figured out how the job was to be done. Industrial management has thought largely in terms of doing the new business of war production on the old stand. If there had been forethought and planning, I believe we could have avoided the mistakes we are making.
So in the first stages of the defense program I must frankly say we have missed some important opportunities. I had hoped that we might use much of the surplus manpower or ineffectively employed manpower of agriculture near at home - that we might avoid moving these folks across the country to supplement the labor supply which, in some of the large urban centers, is already running short. I had thought that this might open the way for a better balance between industry and agriculture for the future. You people well know that a farmer who depends only on one crop is never in a very secure position. The same is true on a larger scale of those parts of our country - those states and regions - which depend only on agriculture. They, too, are "one-crop" areas and they lack the stability and security of better-diversified areas. Perhaps we shall be able to do better in the future than in the past.

My last subject brings me down to something which is of immediate importance to all of you. The last question of national defense and agriculture on which I want to comment might be called my outlook forecast - the effect of the defense program on farm prices and costs in the months ahead and what it means to agriculture. And here I do not speak dogmatically, in these days no one can forecast with accuracy and confidence. Certainly no shrewd forecaster will ever put his forecasts into writing. Let me, rather, make some suggestions about what may perhaps be ahead for the farmer.

Here in Illinois you are, in a sense, very fortunate. You produce, in the main, for a domestic market - your market is at peace and facing a year of strong demand. True you have piled up stocks
of lard which went into export in past years but commerced with the cotton grower, for example, your lard stocks are an irritation rather than a problem of critical urgency. During the past six months and the year ahead, an army of men has been leaving part-time jobs and the relief rolls for regular employment at regular wages. Economists say that one of the first effects of this increased buying power is on the demand for meat and dairy products — items which, though we would prefer to believe otherwise, are luxury products for many Americans.

So the demand for your major products promises to be good. I believe that the farmers of Illinois and the cornbelt generally will meet this demand fully and efficiently within the agricultural machinery we have built up over the years. I believe it can be done without the reckless speculation and post-emergency maladjustment which we had during and after the last war.

In this connection I am somewhat concerned over the beef cattle situation in the years ahead. It is my judgment that all practicable steps should be taken to stabilize the number of beef cattle on farms and ranches at approximately the level which will be attained in 1941. The number of beef cattle on farms and ranches in 1941 is expected to be in line with needs, but supplies for slaughter in 1941 are expected to be reduced because of the retention of heifers in breeding herds due to the present favorable prices. If this occurs, supplies for slaughter will be below needs in 1941 and probably above needs in later years. It is important that cattle feeders give consideration to this situation in order that plans may be made for increased supplies for slaughter next year. I believe that something could be accomplished in the desired direction by encouraging the feeding and marketing of more heifers during the months just ahead.
That is one side of the picture. The other is not so bright. The defense program as you know is, in many respects, a great buying program. We are buying vast quantities of industrial materials in the form of the machines and equipment of modern armor. We are buying great quantities of labor.

In a sense during the year ahead the defense program will enter its second phase. It began during a period of depression - at a time when factories were running at partial capacity and when many workers, both skilled and unskilled, were out of work. The first effect of the new defense orders was to take up slack. Machines which had before been idle were started up; men who had been without work went back to their jobs at the old hours and at the old pay. Factories which had been operating at 50%, 60%, or 75% capacity, began to move toward full operation. I repeat that during this first phase, we were taking up some of the slack.

Now this period of taking up the slack is drawing to a close in many areas. The steel industry, the aluminum industry, many branches of the chemical industry are running at capacity. The demand for labor is becoming more acute. In many branches of industry we are entering upon the period when capacity must be expanded and where, until this new expansion comes into production, shortages may be expected to appear.

During this second phase of the program, we shall see some serious problems for agriculture.

Sometimes, when I am feeling very pessimistic, I find myself painting a rather bleak picture. I see industrial management using the defense program as a device for re-occupying the losses of the lean years. I see it
asking prices and obtaining margins of profit which enables it to set aside a kitty for the lean years that may be ahead. I see labor, pressed by higher living costs, eyeing those increased profits. I see some organized labor groups exploiting the sudden increase in the demand for special skills or trades. I see the farmer, the white collar worker, professional groups and the small businessman who is not participating in the defense program, being squeezed in the process.

As I see, I see this picture during my more pessimistic moments. I hope that it may never come to pass but I think we can only prevent it by a clear-cut, vigorous policy, well fortified by action. Profits on defense orders must be kept to fair and moderate proportions. Any undue gains which appear must be recaptured by thorough-going excess profits taxation. No one is privileged to get rich as a result of this armament effort, through defense expenditures. We must make every effort to expand industrial capacity by the time it is needed so as to keep shortages to a minimum, for every shortage is a temptation to higher prices. Labor must not take undue advantage of any increase in its bargaining position. All unjustifiable price and wage increases must be vigorously curbed.

All of this is a rather large order. But it is the front on which farmers must fight if they are not to become the victims of the sort of squeeze which I have just described.

In the months ahead we are going to build up an organization to keep careful watch on shortages of materials and labor as these affect agriculture. We haven't tried to get ahead of our problem but we do not intend to let the problem get ahead of us. Military demands will have to take
priority over agricultural requirements - farmers may have to make adjustments in the kinds of fertilizer they use and sometimes there may be some shortages in certain types of farm equipment. I do not worry so much about this. But there is a right way and a wrong way of handling such matters so far as the farmer is concerned. I hope we will be able to see that these matters are handled equitably for the farm producer and with a minimum of inconvenience. Above all I hope we will be able to prevent profiteering from any shortages there may be in farm requirements. This is your responsibility as well as mine. As individuals, and especially through your great cooperative organizations, I want you to keep me informed. If prices seem unreasonable or if supplies are unaccountably short, it is your duty to let me know. If there is a good reason for the situation I will tell you. If there isn't, I will try to help you do something about it.

It is good to be back with Illinois people - after all it is something of a homecoming for me, and it is always good to come home. But there is another reason that is more important. You people are organized, self-reliant and strong. It is never necessary to tell the farmers of Illinois that they must work together if their voice is to be heard. They have had experience - you have had experience - and you take your organized strength for granted. This means that in Illinois strength comes from the people and that, as I understand it, is the democratic way of life.