

THE MIDWEST AND NATIONAL DEFENSE

Address by Chester C. Davis, Member of the Advisory Commission to the Council of National Defense, before the Annual Meeting of the St. Paul Association of Commerce, St. Paul, Minnesota, Tuesday evening, April 15, 1941.

In acknowledging your welcome let me express my sense of a kinship that has been peculiarly close not only with this community but with this organization. I believe the St. Paul Association was the first civic organization in a large American city to take up the farmers' fight for equality for agriculture and make it its own. When my part in that struggle first took me out of Montana 18 years ago I came to St. Paul. Your association backed the farmers not only with your moral support but you gave them substantial aid.

I was here five years ago on a visit to the University when word came of my appointment to the Federal Reserve Board. It isn't altogether coincidence that finds me spending with you tonight the last hours of my service as a member of that Board. It is pleasant to be with old friends of the Ninth Federal Reserve District on the last evening before I take up my new duties in the Eighth.

A great deal has happened to the world in those five years. The rate of change during the past year has become breath-taking. The rise of force above decency throughout the world has had profound effects in the United States.

The first anniversary of the American defense program is almost here. It was a year ago the end of next month that President

Roosevelt called together a group of civilians from diverse fields to advise with him and with the leaders of the armed forces on America's first peacetime mobilization of her industry. A year ago our armed services, our industry and our ideas were all on a peacetime footing. The Army existed primarily as a nucleus for the expansion which would be required in case of a serious threat of war. Our Navy was on an operating basis as a Navy must be. But it was planned and built for the protection of one ocean only.

More important perhaps, a year ago we were thinking mostly of peacetime problems. We knew that another war was going on in Europe just as we knew that an old war still continued its desolate course in Asia. Both of them seemed a long way away. To most of us prices, mortgages, jobs, and making a living were still the all-important problems of the day.

A year ago or a little less we had projected a defense expenditure of some two and one-half billions - a sum to be sure which looked over-large to many Americans after two decades of thought about universal peace. Some of the changes in our thinking during the year can best be seen by tracing out the history of this two and one-half billions. When France fell last summer and we began to recognize the full threat of the new world terror, our Government doubled the sums which previously had been appropriated. In September this five billions was tripled to fifteen billions. There were further, although smaller, increases after that.

Then as the year wore on the larger strategy of American defense began to take shape. England last summer and autumn showed magnificent powers of survival and we formally and by democratic decision declared our stake in her survival. So our defense program has been extended to encompass assistance to Great Britain and other nations. To the sums which Congress has made available for our own defense establishments it has added seven billions of dollars for aid to Britain, Greece and China. Still further appropriations for our own defense establishments are under way. Before this year is out our appropriated and authorized defense expenditures will reach a grand aggregate of some forty-four billions of dollars. This in brief is the financial history of the defense effort during the past year.

Tonight, recalling that I am speaking before a group which concerns itself with the problems of industry and commerce, I should like to tell you of some of the lessons we have learned as this program has developed - some lessons in what might be called defense economics. And I should like to apply some of these lessons to the problems and responsibilities of the Middle-West in connection with the defense program.

In one respect the United States began its defense program with an enormous inventory of advantages. We are an industrial country with nearly all of the basic materials for modern armament. We

have a well-organized motor industry, a large and efficient steel industry, a progressive chemical industry, and rich and efficiently utilized agricultural resources. All of these were developed, it is true, for peace, but the raw materials of peace are the same as the raw materials of modern warfare.

But we also know that a strong industry in itself is not enough. While we had the raw materials for defense production -- without which our position would be hopeless -- we did not last summer have the industries which turn these raw materials into armaments. The main task when we began to rearm ourselves eleven months ago was to build such an armaments industry. It was necessary for us within the span of a few months to build ourselves the equivalent of the arms factories of the Old World. We had to duplicate under secure Government ownership the vast shops which in peace and war have turned out engines of destruction for European governments and which in their search for private profit may have added their own mischievous contribution to the making of war itself.

The requirements of modern war are diverse in character and enormous in quantity. When armies abandoned pikes and swords for muskets and cannon, they became totally dependent upon an industry to manufacture gunpowder. This is still true today. A supply of powder for rifle, machine gun, anti-aircraft and artillery ammunition is still a vital requirement. A year ago we did not produce enough smokeless

powder to last a modern army more than a few weeks. It was necessary to build completely new plants for the manufacture of powder. Two of these, I might say - one in southern Indiana and one in the hills of western Virginia - are now coming into production. Similarly we had no industry for producing other explosives in the vast quantity required in modern war. We needed an industry to produce tanks and another to manufacture small arms ammunition. These also are under way.

Above all, we needed an industry to produce military aircraft. A year ago our airplane industry was on a peacetime basis. We produced only a few pursuit planes, some of them at least of unproven quality. American transport planes were used in commercial airlines all over the world and the transport plane is closely related to the bomber. But even this part of the industry was a small-scale, hand-tooled affair. We needed a full dress American-scale aircraft industry. Europeans have long been in the habit of looking with wonder at our automobile industry and at the number and efficiency of the cars which it turned out. What we have needed most of all during the past year is an airplane industry which would create the same impression.

So the building of a new armament industry has been the number one problem in defense economics during the past year. One of the problems which has interested me deeply in connection with this program has been the location of these new plants. What principles should be followed in deciding where this industry should be established?

When the National Defense Advisory Commission was organized last summer, I expressed the view that new industries required under

the defense program should not be located in areas where existing industries essential to defense are now concentrated when there was any possibility of placing them elsewhere without undue sacrifice of speed and efficiency. It was clear that this was the only way in which new reservoirs of unemployed labor and resources would be tapped without uprooting families and shifting them thousands of miles into communities where ebbing of the armament effort would leave them stranded.

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

New facilities and new production are now being authorized for the United States and for aid to England. I am hopeful that the armed services and the defense authorities will do a better job with those than has been done heretofore. I do not mean that the plants and facilities that have already been located will not produce efficiently the materials and the implements they are designed to turn out. By a "better job" I mean that the additional units yet to come will be located where they can tap resources of materials, facilities and men

heretofore untouched. The importance of such an effort to the Midwest area will be apparent to all of you. It is of equal importance, I believe, to the agricultural regions of the South and Southwest. In these areas are the great reserves of manpower and materials which are not now being tapped for the defense program and which we must bring into use.

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 and in the villages 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.

So much for the new industries. The number two problem in defense planning during the last year has been the readjustments in our existing industry required by a defense economy. I have reference here to the changes in the production of our present farms, mills, and factories to supply the changed and expanded demands of the defense program or to offset the loss of foreign sources of supply.

I think many would agree that this has been the most awkward and difficult phase of the defense effort. It is much easier sometimes to create a new industry than it is to expand an old one. Up to the present time we have been going through the easy part of this adjustment

process. We have been picking up the slack in industries which in the past had been operating below capacity, Now this stage is past. The point has been reached where expansion in the great basic industries is imperative. We do not produce the tools, steel, power, non-ferrous metals or chemicals which our newly assumed role as the arsenal of democracy will require. For many of these commodities it may be necessary that we have priorities and rationing while new plants are being built to supply our full needs. But so long as it is physically possible to increase output by increasing our plant and machinery, rationing is only an expedient. We can build a fifteen or twenty billion dollar defense program out of the men and materials which in the past have been unused, if we have the mills in which to employ them.

For a decade the American economy has been operating in low gear. Our industrial capacity has become adjusted to a low level of output. Our problem now is to face up to the full productive output of the country and provide the mills and the machines which will enable us to use our total manpower. Some have feared no doubt that the new factories and mills would fall idle some day - that they would be added to the excess capacity which many industries have struggled with in past years. This, in my judgment, is an idle worry. If we know how to use our plant and equipment to produce the implements of war, we ought to be able to learn how to use them in the production of things of peace.

The next problem is closely related. It is to learn how to use the small business man and the small shop in the defense effort.

It is to learn how to use the machine tools and machine skills which are available in every industrial city of the United States - equipment and skills which are not a monopoly of the large mass production centers of the nation. On one or two occasions I have drawn attention to the fact that the great proportion of the prime contracts for war materials awarded so far has gone to a relatively small number of companies. Of those let between June 13 of last year and February 15 of this year 80 per cent had gone to 62 companies or financially inter-related groups of companies. These are the companies or families of companies that were best equipped with experience and management to attempt the different phases of the colossal job we have on hand. But the defense authorities clearly recognize that if the manpower and the facilities of the country are to be brought fully to bear on the job of production, the corporations and firms holding these prime contracts must spread the task of production through subcontracts as widely as possible over the land.

As most of you know, an organization is being perfected under the direction of the Office of Production Management through which the Army and the Navy and the other defense authorities are going to try to do an effective job of spreading the work covered by these contracts. If this is successful it means a larger use of the industrial facilities in this area. The three States of Minnesota, Wisconsin, and Iowa in 1939 together contributed five per cent of the total to the value added by the nation's manufactures. For the period from July 1 of

last year to February 28 of this year these three States were awarded but 1.5 per cent of the prime contracts for defense operations. This is the situation which we must seek to offset by a larger use of sub-contracting, together, of course, with a constant effort to achieve the best possible distribution of new prime contracts and new factories.

This will require a lot of attention and a lot of work from all of us. In one way or another the end must be accomplished.

I should have liked, had time permitted, to talk more about the effects of war abroad and the arms program at home on different branches of our agriculture. Our problems in this area have in some ways been much simpler than those I have just mentioned. Agriculture, as you know, produces at a high level of output in both good times and bad. The farmer made his adjustment to depressed market conditions during the depression by taking lower prices rather than by cutting down on his output. This meant that we entered the defense period with a farm plant that was producing at a high level and with surplus stocks of many of the great basic commodities. To these have been added further supplies that we formerly sent abroad. Sometimes I wonder if very many people have stopped to consider how much weaker our position as a nation would be if we had to worry about whether our stocks of wheat were sufficient to maintain the supply of bread next year. Few of us, I am sure, appreciate the security with which the farmers of the United States have provided us.

Some agricultural supplies will be needed in greater quantities in the months ahead. Meats, dairy products, poultry products, and some vegetables are in increasing domestic demand and it is these commodities which Britain will require in the main. Farmers, I believe, will be ready to meet these requirements - in fact, I expect we shall see the farmers give another exemplary lesson to industry and to labor in the form of a prompt and willing response. For my part I have every confidence and farmers have every right to expect, that the Government will back them up with assurance of secure markets at fair prices for this increased output.

Nearly two decades have passed since the long fight for equality for agriculture began. I recall vividly the early leadership and sponsorship which this organization and the people of this city and the Northwest provided. We sought to establish the principle that the farmer's income was determined by the relation between his costs and his prices and that he was entitled to get and keep a fair relation between the two. That principle has been accepted as the law of the United States.

It has not been easy or possible to apply that principle with uniform success in the market place. But current tendencies to regard it as outmoded and obsolete disturb me. The formulae may need revision technological changes may need to be taken into account, but the policy that accepts and seeks to attain for agriculture a fair standard of relationship with industrial wages and industrial prices should not be

cast aside and need not be apologized for. I see altogether too pronounced a tendency to do both in the present agricultural picture. There is no equity and but little foresight in a philosophy that accepts and justifies every wage increase organized labor can wring out of this present crisis, and exonerates increasing industrial prices as "necessary" because of rising costs, while denying the same kind of accounting to the American farmer.

We have many and difficult adjustments ahead of us. The defense program means that we shall have unequal pressures on different markets. Some farm supplies may be difficult to obtain. Costs may rise and many farm prices will continue to reflect the loss of foreign markets. The principle of a fair parity in farm income and farm outgo must be maintained - if for no other reason than because the farm plant must remain healthy and solvent for national defense itself.