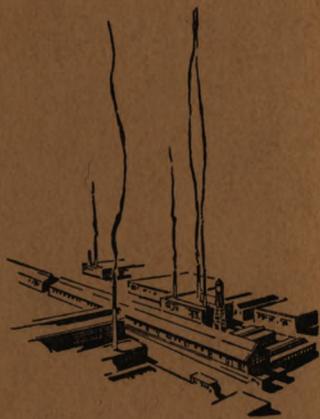


MISSISSIPPI'S BAWI PLAN

An Experiment in Industrial Subsidization

FEDERAL RESERVE BANK OF ATLANTA
Department of Research and Statistics



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MISSISSIPPI'S BAWI PLAN

Balance
Agriculture
With
Industry

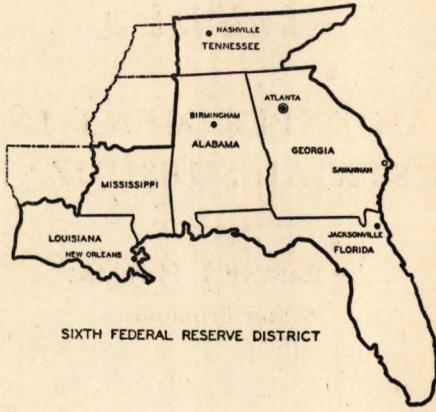
AN EXPERIMENT IN
INDUSTRIAL SUBSIDIZATION

by ERNEST J. HOPKINS
Senior Economist

FEDERAL RESERVE BANK OF ATLANTA

JANUARY 1944

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FOREWORD

For more than a quarter of a century, the Federal Reserve Bank of Atlanta, as an integral part of the Federal Reserve System, has served its District and the nation in accordance with a variety of responsibilities that, from time to time, have been placed upon the System and the Bank by Congress. These responsibilities, which are discharged in the public interest, have been typically related to banking and monetary affairs. In fulfilling these responsibilities, the Bank, as a matter of course, has always concerned itself with commercial and industrial developments and trends within the District it serves. Ever since 1919 the Bank has issued a monthly review of business and agricultural conditions in the Sixth Federal Reserve District.

The preparation of the *Monthly Review* has always been one of the primary tasks of the Bank's Research and Statistics Department. Because of the enormously changed economic and financial relationships that have emerged as the current war has progressed, the Board of Directors more recently requested the Department to expand its undertakings for the purpose of making the Bank's knowledge of economic affairs in its region more complete and more detailed. With this widening of the scope of the Research Department's investigations, the directors of the Bank, with the cordial endorsement of W. S. McLarin, Jr., president of the Bank, authorized the printing and distribution to the public of any studies that appeared suitable for a wider circle of readers than might be available within the Bank itself and that might not fit within the space limitations of the monthly publication.

One such study was the Bank's recently issued *Directory of Postwar Planning Agencies*. This Directory, prepared in mimeographed form, was mailed to those individuals and agencies who co-operated in assembling the data the Directory contained. A few copies of the Directory were also made available on request to other individuals who had an interest in postwar planning problems.

During the course of the research staff's effort to collect information regarding the activities of a planning and promotional character in the District, it appeared that, aside from the ever-present concern for the agricultural future of the Southern territory, interest in industrial expansion of the region was paramount. In this latter connection, representatives of a number of chambers of commerce and other organizations having a primary interest in promoting Southern industry fre-

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quently cited Mississippi's state-controlled plan for subsidizing new enterprises, a plan that was terminated shortly before the outbreak of the current war.

The recurring mention of the Mississippi plan prompted the Bank's Department of Research and Statistics to undertake a review of the entire experience. The report proved to have an interest that warranted the issuance of a second special publication, namely, the one here presented.

Publication appeared justified as a matter of historical record alone, for the Mississippi subsidy experiment was in many respects unusual in its conception as well as in its administration. Moreover, attempts to attract new industries by various subsidy offers are so characteristic of the South, and the literature upon the subject is so scant, that it was believed value would be found in a factual analysis of this elaborate attempt to use the subsidy mechanism—which usually is organized less thoroughly, administered less vigorously, and conducted less completely within the public view.

In publishing this study by its research staff, it need hardly be said that the Bank thereby assumes no point of view toward the Mississippi plan, toward subsidy plans in general, or toward the various other issues and questions involved. The position of the Bank in this respect is precisely that of any other publisher; namely, that the work is of interest, that it is calculated to stimulate individual thought, and that there is a wide latitude for differences of opinion and reaction on the part of the reader and for personal judgment on the part of the writer.

This pamphlet is the work of Ernest J. Hopkins, who holds the rank of senior economist in the Research and Statistics Department of the Bank. In the field investigation, Mr. Hopkins had the assistance of Buford Brandis, assistant manager and economic analyst of the same staff. The work was performed under the direction of Lloyd B. Raisty, manager of the Research and Statistics Department.

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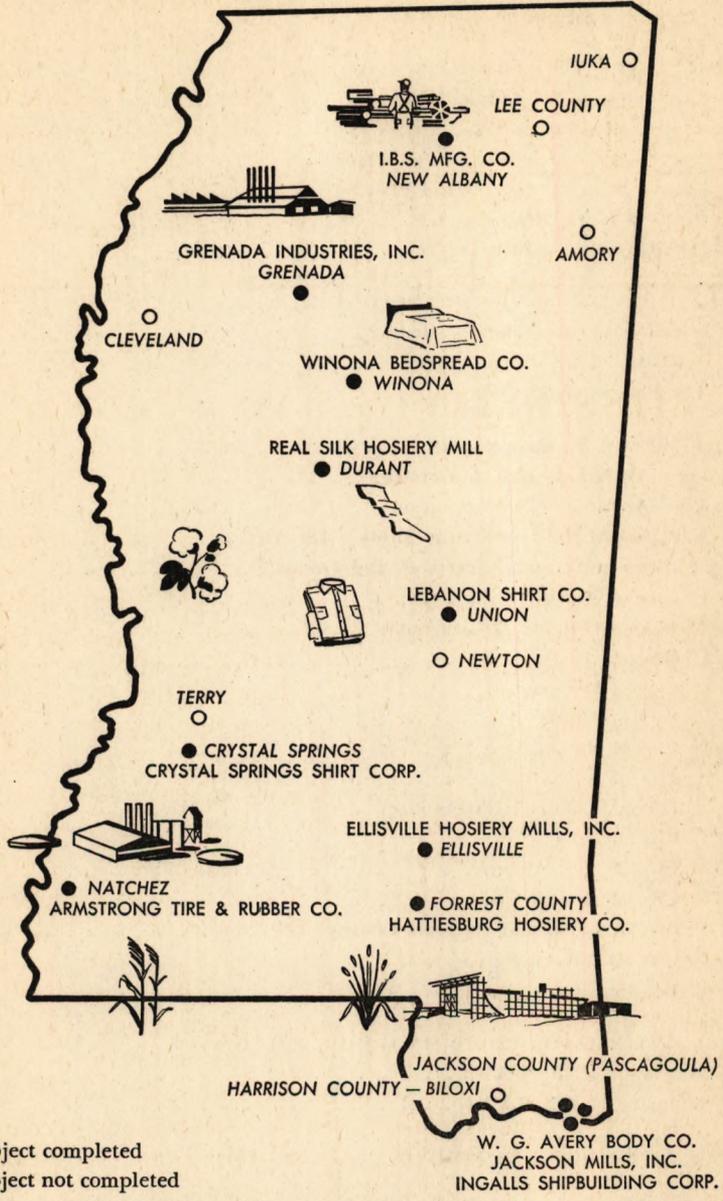
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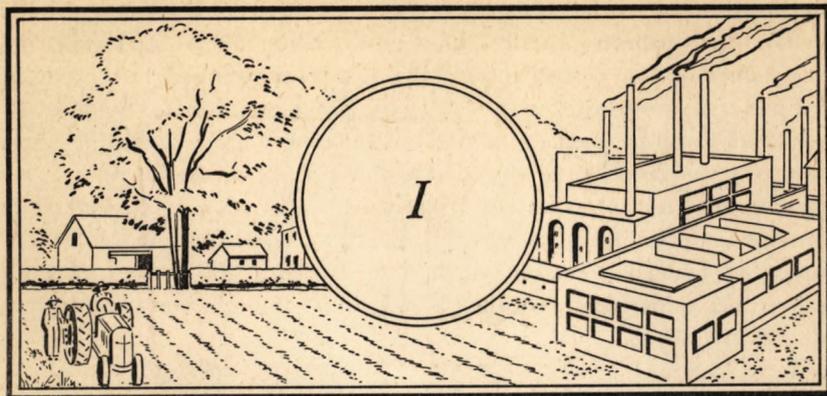


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INDUSTRIAL SUBSIDY LOCATIONS IN MISSISSIPPI UNDER THE BAWI PROGRAM





MISSISSIPPI'S BAWI PLAN

Central Features of the Plan

From November 1936 to June 1940, Mississippi was engaged upon a unique experiment in the development of new industries by public subsidy. Under the authority of the state government, cities and counties issued bonds, built or acquired manufacturing facilities, and leased them to private enterprises at nominal cost. The immediate purpose of this system was to relieve an emergency of unemployment, serious in Mississippi at the time. The long-range purpose was to "balance agriculture with industry" in a cotton-growing and lumber-producing area; and this purpose gave its name to the movement, which was and is today popularly known as the "BAWI."

The story of this adventure in state-fostered industrial development has a bearing upon regional problems of the South at the present time. The BAWI was a prewar plan: one of the few systematic state programs attempted during the 1930's in this region. As such, it represented a direct if limited endeavor by a single state to remedy the deficiency of the manufacturing structure within its area. Thus, the BAWI dealt with a question that is not only of central importance to much of the South, but is revived for consideration today in connection with the region's postwar situation. Mississippi's particular method of attacking this problem, that of attracting new industries

by subsidizing them, also represented a long-familiar and highly debatable Southern practice, in a culminating form. The resulting experience was a mingled one; the BAWI developed its quota of controversies and failures as well as its quota of successes. Some of its attempts came to nothing, while several new plants, including some of war importance, were founded under the terms of the plan. This prewar experience has an empirical value today. It may be looked to for case material illuminative of problems and questions of the present time. It is believed that some of the same fundamental issues will again arise, and again require difficult decisions by the economic leadership of the South.

Issues Involved in the BAWI

In its theoretical aspect, the BAWI represented a series of assumptions by the Mississippi leadership on five underlying issues. Four of these issues are still current; the fifth arose from the BAWI plan itself.

First to be listed is the broad difference in point of view between those who desire the South to become more highly industrialized and those who conceive of its more appropriate development in terms primarily agrarian. Upon this basic issue the BAWI took a clear position. The assumption in favor of a manufacturing development was the fundamental tenet of the plan, though what might constitute a balance with the agricultural life of Mississippi was never very clearly defined.

The second issue was this question of balance. The BAWI had a system for selecting not only the types of manufacturing, but also the particular manufacturing companies, to be fostered within the state. The difficult problem of industrial desirability accordingly arose, involving such questions as these: whether to develop certain special types of production, or simply more manufacturing of any type; whether, for example, to stimulate more processing of Mississippi's raw materials in minerals, lumbering, and agriculture, or to foster types of industry not clearly related to the basic resources; whether to encourage the hazard of Mississippi capital in expectation of profits, or to award both risk and profits to outside capital; whether to prefer the independent type of enterprise, or the branches and affiliates of multiestablishment concerns.

The answer of the BAWI was, again, a clear one, but it was largely dictated by the emergency that existed at the time. The principal

criteria adopted were, first, that all risk and possibility of failure must be avoided and, second, that the most immediate opportunities for increasing employment must be seized. These twin requirements implied a preference for the branch or affiliate plants of existing organizations, the stronger the better, and subordinated the questions of the participation of Mississippi capital, the economic appropriateness of enterprises to the Mississippi background, and the founding of new native industries. In practice, a further restriction was found desirable: no manufacturing operation was brought into Mississippi from a previous location; all BAWI plants proved to be new expansions of their parent concerns. The concept of balance, under these limitations, amounted to that of supplementing the state's farm income by an increased income from industrial wages and of providing added local purchasing power to buy the products of the farm.

The third issue was the entire problem of subsidies, and with this, the controversial nature of the experiment is seen to mount. To induce the establishment of new manufacturing affiliates within Mississippi, the BAWI offered subsidy inducements. A great national question, both historic and current, was here involved. Classical and neoclassical economic theory has generally condemned—and actual practice in the United States has long included—the subsidization of private enterprise. Subsidy has been assailed, both generally and in specific cases, for arbitrarily loading the scales of open competition and interfering with the natural course of a free economy. Yet subsidy has been found in a wide variety of forms, direct and indirect—among them the tariff, the disposal of public lands and of their agricultural, timber, and mineral resources, public financing of canal and railroad developments, tax exemptions and differentials, franchise and patent monopolies, public highway, seaport and airport developments for commercial use, and Government contracts in aid of new or existing economic functions in peace and in war.

Instances of subsidy have ranged from those that had a discreditable coloring to those that amounted to the purchase by Government from private enterprise of some desired gain or outright necessity of the public welfare. But generally the practice has been controversial; few issues in our political economy have presented a greater challenge. To this vast background of debate, Mississippi now contributed an isolated and somewhat unusual chapter.

The fourth issue was that of community subsidization, a form of

subsidy not peculiar to the South but of such frequent occurrence in this region as to be among its standing problems. Community subsidization of individual manufacturing companies is a piecemeal and particularistic kind of subsidy emphasized in areas that tend to be disfavored by the more wholesale differentials. In its usual form, community subsidization involves the raising of local subscription funds, gifts or virtual gifts of lands and buildings to wanted establishments, state and local tax exemptions to new industries, and the free provision of special municipal services, all in aid of new local business developments. This form of subsidy is usually spoken of as "buying pay roll" or "bringing in industry." Many communities in the Southeast ascribe to it their prosperity and, indeed, their survival.

But such subsidies confer arbitrary competitive advantages upon the favored companies, and in addition to the more general arguments brought against subsidization itself, this local variant has been condemned for having an uneconomic effect upon the location of industries, for robbing other communities of their means of support, for being most alluring to unsound and unreliable business concerns, for being the work of an "inside" group rather than of the whole community, for exploiting the local labor supply, and, in the cases where none of these things may have been true, for having been fundamentally unnecessary, inasmuch as the sounder establishments certainly needed no subsidy and presumably had already selected their locations. Nevertheless, the practice has persisted. The BAWI adopted community subsidization as its basic practice but adapted and elaborated it, inventing new procedures and establishing a plan of centralized controls.

The fifth and last issue was the public financing and state authorization of community subsidies. This issue, peculiar to the BAWI, culminated the controversies. Under the Mississippi plan, community subsidization of particular manufacturing companies was made a feature of the policy of the state. The raising of local funds was translated into terms of public bond issues and appropriations by city and county governments. The voters endorsed each local subsidy proposition and the taxpayers underwrote it. The manufacturing facilities that were made available to the private companies accordingly were publicly owned. The law, in fact, went so far as to authorize the cities and counties to operate their factories directly; on paper, this drastic power existed, though it was never actually used.

As the centralizing feature, the state investigated and expressly authorized each act of city or county subsidization. This control was exercised through a powerful state industrial commission, which, first, inquired into each new manufacturing proposal in close detail and, second, upon being satisfied as to the soundness of each deal, authorized it by legal franchise—the familiar certificate of public convenience and necessity in a new and unprecedented application—issued to the local unit of government. Upon receiving the certificate, the local government did the rest. Such was the BAWI plan; it at once provided the most centralized, systematic, and financially potent form yet taken by community subsidization in the South and at the same time carried the state of Mississippi, on paper at least, a considerable distance in the direction of socialistic theory.

An ironical contradiction is here apparent. Mississippi would generally be ranked as a conservative and highly individualistic state, and at the time of the BAWI it was under a “businessman” administration. Yet, in its urge to develop new industrial employment, it actually extended the previous limits of constitutionality. How this situation came about is a fascinating illustration of causation sequence, as well as of the conflict between theory and practice not infrequently found in economic life.

These issues, then, define the economic significance of the BAWI. Some of these issues were and are today regional in scope and in one form or another may be expected to recur. The question of increased industrialization of the South is the fundamental consideration of postwar planning in the region. The accompanying problem of selecting the more appropriate and more desirable types of industry, and of truly balancing the basic economy, becomes more far-reaching in its importance the longer it is studied. Subsidy in the large is among the gravest of national issues, and the challenge that it presents appears to be increasing rather than decreasing with time. And certainly the South has not seen the last of community subsidization of local industry. This is an old remedy, almost habitually resorted to in the past and likely to be revived and to call for new decisions of leadership in connection with local problems of postwar unemployment, conversion of small war plants, or developmental activity on the local level.

The BAWI, as will be seen, had its measure of success and also of frustration. To pass judgment upon a completed matter of history

is beside the point, and it is not here attempted. Rather, the search is for implications bearing upon current and future problems. Whether to emphasize the practical gains or the debatable theory of the Mississippi experiment, and whether to accept, reject, or modify the various features of the BAWI plan, the reader will decide.

Working Features of the BAWI

There are in Mississippi today 12 manufacturing establishments¹ that were founded under the BAWI. Their names, locations, types of product, and approximate size in number of workers are given in table 1.

Certain features of the present status of these concerns and of their common history serve to define the BAWI plan in more detail and to describe its working features. A word of caution is necessary. Because these 12 plants present a sample of concerns within the broad area of industrial subsidization, there is danger that inferences bearing upon this broad area may be drawn. Such inferences would be unjustified. The BAWI enterprises were a carefully selected group; no other manufacturing concerns that have been aided by subsidies in the South were subjected to quite the same process of advance selection. In limiting the study to this particular group of plants, it is expressly recognized that the special methodology may have brought nontypical results.

The first working feature of the BAWI plan to be observed from table 1 is its obvious flexibility. Except that all 12 concerns are engaged in some form of manufacturing, they have little in common. In size they range today from the employment of approximately one hundred workers to the employment of several thousand. In types of manufacture they produce shirts and ships, bathing suits and ordnance, plywood and silk stockings, bedspreads and rubber tires. Few of them are peculiarly adapted to Mississippi alone. What here is indicated is the fact that the BAWI plan itself had no limits or bounds other than the selections made by its administrators from among the manufacturing concerns that were interested in locating in Mississippi. Literally any kind or size of manufacturing establishment could have been established in Mississippi under the plan.

¹ One silk hosiery plant shut down in June 1943 and the structure it had occupied was leased to a new tenant in October 1943. Similarly, the plywood plant changed tenants in midyear of 1943.

TABLE I

NAMES, LOCATIONS, PRODUCTS AND APPROXIMATE NUMBER OF
WORKERS OF FACTORIES ESTABLISHED IN MISSISSIPPI
UNDER THE BAWI

<i>Name of Establishment</i>	<i>Community</i>	<i>Type of Product</i>	<i>No. Workers^a</i>
Ingalls Shipbuilding Corp.	Pascagoula	Steel Ships	1,000 and over
Grenada Industries, Inc.	Grenada	Silk Hosiery, Shells	500 - 1,000
Armstrong Tire & Rubber Co.	Natchez	Rubber Tires, Shells	500 - 1,000
Jackson County Mills, Inc.	Pascagoula	Woolen Sweaters, Bathing Suits	500 - 1,000
Lebanon Shirt Co. ^b	Union	Shirts	250 - 500
I. B. S. Manufacturing Co.	New Albany	Shirts	250 - 500
Crystal Springs Shirt Corp.	Crystal Springs	Shirts	250 - 500
Winona Bedspread Co.	Winona	Chenille Bedspreads	250 - 500
Real Silk Hosiery Mill	Durant	Silk Hosiery	250 and less
W. G. Avery Body Co. ^c	Pascagoula	Plywood, Wooden Automobile Parts	250 and less
Ellisville Hosiery Mills, Inc.	Ellisville	Silk Hosiery	250 and less
Hattiesburg Hosiery Co. ^d	Hattiesburg	Silk Hosiery	250 and less

^a Based upon data of June 30, 1943, grouped to avoid disclosure.

^b Formerly West Shirt Co. Succeeded original tenant, a silk-throwing concern, in January 1940.

^c Succeeded as tenant by Pascagoula Decoy Co. in July 1943.

^d Succeeded as tenant by Reliance Manufacturing Co. in October 1943.

The second working feature was the process of careful advance investigation of the applicant prospects, leading to the selections that were made. While the influence of other important factors must be recognized, this investigative and selective feature cannot be overlooked in accounting for the importance of these plants, some of them especially, in Mississippi today. This importance is considerable. In the period of four and one-half years from the beginning of 1939 to midyear of 1943, these 12 enterprises paid a total of \$43,539,361 in wages. This total is heavily dominated by the shipyard, which is by far the largest employer at present in Mississippi, but even the smallest of these concerns is of importance to the small community in which it is located. The total numerical employment in the BAWI

plants, likewise dominated by the shipyard, was 12,466 on June 30, 1943. Mississippi even yet has no great volume of manufacturing, so that the BAWI plants have a considerable percentage importance: combined they employed 14 per cent of the total manufacturing workers of the state and paid 24 per cent of the total manufacturing wages in the second quarterly period of 1943.

Comparison of the two percentage figures indicates that the average wage in these plants exceeds the state average, but this must be qualified: the shipyard accounts for most of the excess above the average wage, the remaining 11 plants, taken together, accounting for only a fractionally higher percentage of state total wages than of state total employment. More to the point of the general vitality of these establishments is the fact, later to be discussed in detail², that in all of them the total wage payments have risen year by year more rapidly—in some cases much more rapidly—than the number of workers. The fact that to begin with these 12 enterprises were winnowed by an investigative process from some 3,800 total propositions and suggestions, and selected for their operative and financial strength, is in some part responsible for their present-day importance in the state.

After having been investigated and selected, these 12 concerns were aided or subsidized by their respective communities. This aid was the third working feature of the plan. While some variations appeared, the usual history—one that would be hard to duplicate for any other 12 plants in the United States—was as follows:

1) Each establishment, after having been investigated and approved by the State Industrial Commission, was officially and formally certified to be necessary to the public welfare of the community in which its location was desired.

2) Each certified company was legally authorized by the state to become a recipient of public subsidy aids extended by the city or county government of the community. This authority was evidenced by a certificate of public convenience and necessity, issued by the State Industrial Commission to the local government concerned.

3) Each authorized subsidy deal was further ratified by the voters of the given city or county by means of a bond election requiring a two-thirds majority of voters for passage of the necessary bonds.

4) Each bond issue (the amounts ranged from \$6,000 to \$300,000)

² See table 2, page 32, and discussion, page 31.

was then sold and the proceeds were expended by the city or county government to buy plots of ground and to erect factory buildings satisfactory to, and in most cases planned by, the accepted manufacturing concerns.³

5) Each publicly owned site and building then was leased for a term of years to the manufacturing concern, which thus became a private tenant in city-owned or county-owned premises.³

6) Each operating tenant, under a leasing contract approved by the State Industrial Commission, paid a cash rental, in some cases as low as \$1 or \$5 a year and in all cases low in relation to the value of the premises.⁴

7) Each operating tenant, as the main rental consideration, contracted to attain and maintain the employment of a certain minimum number of workers, or, more usually, a certain minimum annual pay roll, subject to various contingencies, qualifications, and penalties. Local residents were given preferential status for employment.

8) Each tenant enterprise provided and installed its own machinery and equipment. Such capital investment was exempted from taxation during the first five years of actual operation.

9) In most cases the tenant enterprises were additionally aided by paving, sewer construction, and other facilities and services provided by the city and county governments at public expense, and in some cases stipulated in the contracts.

This enumeration gives an outline of the general method. In essence, the plan amounted to the public provision of manufacturing premises to selected operating concerns, in consideration of local pay roll. Within this main pattern, of course, the terms and arrangements varied.

One final feature of the system, not characterizing every case but important in some, was a by-product of the BAWI and may not have been foreseen: an attitude of interest or sponsorship continuously taken by some communities and their officials in the affairs of the manufacturing enterprises, such as would hardly exist in the case of a wholly private operation. Such a proprietary feeling remains to some extent today. It arises from the memory of the voters that they author-

³ The exception is the Pascagoula shipyard, the site for which was prepared by the county, after being purchased by the company. No buildings were involved.

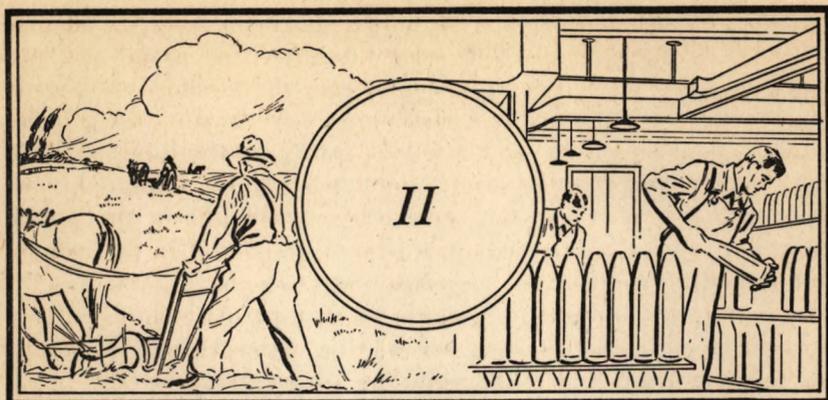
⁴ The highest rent paid is \$3,600 a year for a property costing \$290,000, the first five years' rent being waived.

ized the establishments in the beginning. It comes from the annual reminder to the taxpayers that they subsidized the plants and are still paying for the bonds. It develops from the landlord-and-tenant relationship between the city aldermen or county supervisors and the plant management. In some cases co-operative and helpful relationships have resulted, in others a certain friction has appeared; but, in any event, this proprietary interest seems intrinsic in the public subsidization of a private manufacturing concern and in the use for private industrial purposes of premises that are publicly owned.

In addition to its positive features, the BAWI plan had important negative features. First, in eight communities proposals were approved and certified by the State Industrial Commission, yet came to nothing, because the operation went to some rival community, because management changed its mind, or (in two cases) because opposition developed in the community. Although not in all cases responsible, the BAWI system is sometimes blamed for these disappointments.

Second, a large number of propositions were rejected. For this the BAWI is generally praised today, even by its former opponents: "The State Industrial Commission 'rode herd' on the municipalities and protected them from unsound deals." "The good concerns might have come into the state anyway—the bad ones were kept out." These opinions are frequently heard, and they serve to emphasize the danger that is inherent in any well-advertised general subsidy plan; namely, that of attracting the worst elements in industry along with the best. This danger, in Mississippi, was purposefully guarded against by investigations and judgments administrative in character, though, even so, some disappointments occurred.

Questions, indeed, exist: Was the winnowing process of the State Industrial Commission too vigorous? Were some good propositions, especially those calling for the formation of home-owned companies to process local agricultural and mineral products, perhaps thrown out along with the propositions of the poorly financed or less reputable applicant concerns? Some Mississippians think that the commission "leaned over backward to be safe." On the whole, however, the strenuous centralized control exerted by the State Industrial Commission over the many subsidy proposals that were made is regarded as one of the most valuable features of the plan, as it was also one of the most unusual.



How the BAWI Plan Developed Experience of Columbia, Mississippi

The leading figure in the development of the BAWI was Hugh L. White, capitalist and retired lumberman, who was Governor of Mississippi from 1936 to 1940. The BAWI plan was his conception and developed from his experience. Its inception was in Mr. White's home town of Columbia, Mississippi, in 1931-32.

The pay rolls of the lumber interests owned by Mr. White had been for years the principal economic basis of Columbia, a town with a population of 4,833 in 1930. The enterprises consisted of three saw-mills, a veneer plant, and a box factory. Columbia was also the trade center of an agricultural area, but much of its market for farm products was provided by the wage income of the town. Early in the depression, because of a combination of reduced lumber demand and depletion of the timber supply of the locality, Mr. White retired from the lumber industry and the Columbia operations were discontinued.

The consequences provided an emphatic lesson in the importance of industrial pay roll to a small community. The population of Columbia showed signs of serious decline. Houses and stores became vacant, homes were lost, families were divided, and the surrounding farms suffered along with the town. Feeling some responsibility for this developing distress, Mr. White took steps to remedy the situation.

On a contribution of \$3,000, a new Chamber of Commerce was organized. It proceeded to shop around for a foot-loose industry that might be induced to locate in Columbia and replace the lost pay rolls. Opportunity for attracting new plants existed at the time, the pressure of the depression and of labor troubles having developed a locational restlessness among certain industries in other sections. These industries were, typically, manufacturing enterprises of the lightly mechanized type, not especially oriented to adjacent raw materials or markets, but primarily in search of low labor-cost ratios. So marked was the phenomenon of industry on wheels in that period that a form of brokerage had developed, designed to bring together client companies on the one hand and subsidy-offering communities on the other. Through such a location broker, of Chicago, the Columbia Chamber of Commerce was put in touch with a garment-manufacturing concern that wanted to set up a plant in the South.

A subsidy of \$80,000 was required to cover the costs of land and buildings and probably, also, the broker's commission. This sum was raised in Columbia by a Chamber of Commerce campaign. Part of the contribution was in cash, but much of it was in the form of 6 per cent notes made out to the Chamber of Commerce and collectible by instalments. These promissory notes presented a financing problem, for cash was needed. The problem was solved when a New Orleans bank advanced the full amount of the unpaid contributions on the security of the portfolio of notes and the personal signatures of 40 Columbia businessmen, including Mr. White, on a master note. Thus, the building for the garment plant was financed. Construction proceeded and the company moved in.

Economically the garment factory was unconnected with its Columbia environment and socially it was at first a stranger to the town. To the question of why the same sum was not used to capitalize a native industry processing some Mississippi product, Mr. White replied that none of the requirements were present for success in such a venture. Outside of lumbering, Columbia had had no previous industrial experience. It had no available qualified management, no trained labor, and no established marketing contacts. Also, the time was extremely unfavorable for new hazards. To bring in an already operating company, it was concluded, offered the only feasible solution to the town's unemployment problem.

The garment plant came in and it succeeded. It soon was employ-

ing about seven hundred workers. Concededly, the wages it paid were low, as the labor market was at bottom price and this was before the passage of Federal minimum wage legislation and after the \$12-a-week NRA standard had been abandoned. A Jackson newspaper, attempting to muckrake Mr. White during his campaign for the governorship in 1935, assertedly found instances of girls' receiving as little as \$9.11 a week in the Columbia plant. A New York newspaperman reported wages of \$7.20 a week in the same plant.

Nonetheless, the new factory produced a good-sized pay roll, and its sum total revived the town. Instances occurred of homes saved and of families held together. Local business revived. Moreover, the exodus of population was curbed. The reaction on the surrounding farming area also was marked. An observation frequently heard today in Mississippi may be dated from that time; namely, that the women and girls of farm families represent a labor surplus and that farm incomes are especially benefited by their employment in industry—that, thus, a factory may subsidize a farm. (It is less frequently recognized that the presence of a cheap and immobile labor surplus on the farms also may subsidize an industrial operation.) Since both the farm and wage income were spent principally in the town, the \$80,000 subsidy extended to this plant by the local businessmen had the character of a self-supporting and self-retiring investment on their part.

Spread of the Columbia Idea

The Columbia subsidization was not the first instance of the kind in Mississippi, but it was the most widely advertised. The plan created intense interest, and Mr. White found himself invited to tour the state and explain it to Chamber of Commerce groups. Columbia businessmen, by much the same method, later brought in a plant to process pine stumpage, and also a cannery. So rapidly did the device gain ground that in 1936 Mr. White, who had become Governor, was able to inform a state editorial convention that "over 20 new industries have been established, representing investments of \$5,000,000, giving employment to some 5,000 individuals, with an annual pay roll exceeding \$2,500,000, as the result of the Columbia method." He also recited that the sales of merchants in Columbia had gained in dollar volume by 26 per cent since 1932, whereas in comparable communities that had no manufacturing industry, the sales had declined by an

average 32 per cent. In 1940, it may be added, Columbia's population was 6,064, or 26 per cent larger than it had been ten years before.

Shortcomings of the Columbia Plan

As the leading sponsor of this development, Mr. White observed its workings over a four-year period and by 1935 had come to certain conclusions. The basic idea, he believed, was sound. Especially, he considered that the plan was sound as applying to small communities, lacking in pay roll, and located in relatively poor agricultural or lumber areas. There were many such communities in Mississippi, and they were generally in distress.

Yet Mr. White saw that the Columbia plan had certain flaws: One, such communities were usually very poor; it was an effort for the more active citizens to contribute or pledge the needed subscription funds. Two, in the course of the voluntary fund drives, there were always some individuals who were willing to contribute freely, others who would not contribute at all; this situation created bad feeling, since all stood to benefit, in theory at least, from the gain of the community in respect to pay roll. Three, the Chambers of Commerce of the smaller towns lacked the means to investigate thoroughly or to determine capably whether given propositions were sound; local desire for employment had overcome good judgment at times. Some unfortunate episodes—such as the prompt departure from one town of an overall factory whose advent had been enthusiastically celebrated by a public "Overall Day" not long before—served as a warning that a means of overhead investigation and control was greatly needed. And four, bankers had not in all cases come to the aid of the fund-raising sponsors and liquidated the pledge notes, as they had done in the case of Columbia.

Further Development of the Plan

It was purely as a practical solution to difficulties that had actually arisen in the various cases of community subsidization that Mr. White developed what were to become the features of the final BAWI plan. He wanted results. In translating the Columbia system of privately raised subscription funds to one involving the use of local government funds, he was crossing a gap that was wide in theory but appeared narrow in practice.

The municipal and county governments, Mr. White reasoned, were close to their people, in the smaller communities especially. These governments offered a ready medium for doing what the people wanted; counties and cities already had participated in the subsidy movement to the extent of supplying various services in aid of the new industries. It was typical of the area that, in the smaller towns, the same set of leaders would work now through the Chamber of Commerce, now through the local government, and now individually, in various patterns of private-public co-operation. Indeed the inclusion of these governments in the community subsidy efforts appeared to Mr. White more democratic than their omission, inasmuch as what might otherwise appear as the act of a limited group of town leaders could, in this way, have the sanction of the voters in general.

To raise the subsidy funds from public rather than private sources would, in itself, in Mr. White's view, have financial advantages. Primarily, he believed that the entire scope and energy of the movement would be greatly increased, inasmuch as the borrowing power of the units of government could raise much larger sums than the businessmen would be able or willing to pledge. The burden of what might be termed the subscriptions would be spread evenly and proportionately over all the taxpayers; thus, the unequal incidence of the private subscription system would be reduced. Also, the problem of deferred payments would disappear, for public bonds would be immediately convertible into cash. Finally, even though the electorate itself was limited, the active voters in the smaller communities were usually a high percentage of the eligible voters. The bond election, therefore, while not a perfect means, impressed Mr. White as a good available means of polling the community as to whether the particular new enterprise was wanted or not.

Underlying the resort to public deficit financing was also the existing dearth or frozen condition of private capital funds. The money market at the time was reluctant to accept the securities of private industrial concerns. But the market was responding readily to full-faith-and-credit bonds of towns and counties that were not already too heavily bonded. Therefore, under the stimulus of public bond issues, it appeared that capital would flow, much larger sums could be raised, public sanction would be more general, and the subsidies would be available in cash from the start.

Basic to the entire scheme was the control to be exercised by the

state government. A central state board, empowered to investigate the various subsidy propositions and to control the local deals, would operate, in Mr. White's belief, as an important safety factor. Able and neutral businessmen could thus be placed in charge of the entire growth of new industry in Mississippi. A state advertising campaign also would assist in bringing queries to the localities that wanted new industries and would help supply the necessary momentum.

Thus, the two-level BAWI plan was developed. It provided for state sponsorship and control, but for local financing and operation. It was to be at once a means of attracting industries, of controlling the subsidizations, of polling the voters, and of getting capital to flow. Mr. White in 1935 campaigned for governor and was elected, largely on the basis of this plan. Taking office at the beginning of 1936, he proceeded to try to put the BAWI, as it was already known, into effect.

Problem of Drafting the Act

The first session of the legislature under the new administration appropriated \$100,000 for state advertising and established an Advertising Commission. But the legislators promptly encountered the fact that serious problems of constitutionality were involved in the Governor's BAWI plan, and they were unable to draft a bill. Toward the end of the session, the Governor called several prominent attorneys into conference. He placed before them the practical objectives that he wanted to reach and entrusted to them the legal problem of drafting the necessary legislation. They accepted the challenge. The final stage in the development of the BAWI plan had been reached.

The group of attorneys included H. H. Creekmore, Garner W. Green, Forrest B. Jackson, Louis M. Jiggitts, W. H. Watkins, Sr., and Major W. Calvin Wells—all leading members of the Jackson, Mississippi, bar. Just as Governor White had arrived at his plan by purely pragmatic considerations, so these attorneys now sought a workable means of bringing it about within the fundamental laws of Mississippi.

The legal issue was a difficult one; it appeared at first insuperable. The Mississippi Constitution forbade the use of the public money or credit, derived ultimately from taxes, in aid of private individuals, firms, or corporations. This inhibition was altogether specific:

The credit of the state shall not be pledged or loaned in aid of any person, association, or corporation, and the state shall not

become a stockholder in any corporation or association. . . . No county, city, town, or other municipal corporation shall hereafter become a subscriber to the capital stock of any railroad or other corporation or association, or make appropriation, or loan its credit in aid of such corporation or association.⁵

These forthright provisions were based upon the due-process clause and had been upheld by the Mississippi Supreme Court in a number of decisions. In one case a county had been prohibited from subscribing to the capital stock or lending credit in aid of a private or semi-public hospital.⁶ In another case the city of Jackson had been forbidden to turn over to a streetcar company a forfeit collected from its predecessor.⁷ As recently as 1932, in another court decision, the town of Booneville had been prohibited from using the proceeds of a \$15,000 bond issue to build a garment plant for lease to a private operating concern.⁸ The last procedure was precisely what it was now desired to do on a large scale under the proposed BAWI plan.

The attorneys readily perceived that what had seemed a simple, workable way of bringing new industry into Mississippi involved the very fundamentals of constitutional law. Accordingly they set out to find a basic legal principle higher and more compelling than "due process" and capable of overcoming it in court.

Their attention became centered upon the "general welfare" clause that is so familiar to American constitutional law. It is basic to government to promote the general welfare of the people. Could this principle be so interpreted as to apply to the problem that was now in hand?

The principle of the general welfare, indefinable *per se*, had been embodied in many legal cases. These cases were now exhaustively explored. Obviously the power of a governmental unit to lease out a publicly owned facility—the plan called for such power—must be based upon the legal power to operate as well as to own that facility. Since general manufacturing was contemplated, Governor White's plant-leasing plan involved outright public ownership and operation of manufacturing plants as a legal right, at least. But how far did the legal right of public ownership extend? Could it extend to city or

⁵ *Constitution of Mississippi*, sec. 258 and sec. 183.

⁶ *Brister v. Leflore County*, 156 Miss. 240; 125 So. 816.

⁷ *Adams v. Jackson, etc.*, 78 Miss. 887; 30 So. 58.

Jackson, etc. v. Adams, 79 Miss. 408; 30 So. 694.

⁸ *Carothers v. Town of Booneville*, 169 Miss. 511, 153 So. 670.

county ownership and operation of hosiery, tomato-canning, and plywood plants?

In legislation adopted by the state of North Dakota, during the period of the ascendancy of the Non-Partisan League, the Mississippi attorneys finally found their desired legal precedent. Under Governor Lynn Frazier, North Dakota had developed a full-fledged system of state banks, state crop insurance, state home building, public grain elevators, grain warehouses, and even flour mills to process grain. The legislation was based on the general welfare clause and on specific provisions of the North Dakota Constitution, which defined the welfare of that state in terms of its wheat economy. But, in addition, there was language indicating that *employment itself* might be regarded as a general welfare necessity. Thus, the clue was supplied. If industrial employment, irrespective of the type of industry, could be declared by the Mississippi Legislature to be a requirement of the public welfare of Mississippi, the legal bars against the Governor's BAWI plan might be down.

The North Dakota system had been attacked in a taxpayer's suit and the United States Supreme Court had decided, in effect, that it was a state's right to define the terms of its own welfare. The decision had concluded:

If the state sees fit to enter upon such enterprises as are here involved, with the sanction of its Constitution, its Legislature and its people, we are not prepared to say that it is within the authority of this Court, in enforcing the processes of the Fourteenth Amendment, to set aside any such action by judicial decision.⁹

On the basis of this decision, the Mississippi Industrial Act was finally drawn.¹⁰ The bill was presented to the Governor and legislative leaders, was passed at a special session summoned for that purpose, and became law by Governor White's signature on September 19, 1936. Embodying powers of public manufacturing far broader than Governor White—or anyone else in Mississippi—had the least intention of using, the act also contained provisions for limiting those powers, on

⁹ *Green v. Frazier*, 253 U.W. 233, 40 Supreme Court 499.

¹⁰ *Mississippi Laws*, 1936, First Extraordinary Session, Ch. 1; *Mississippi Code 1930 Anno. Ch. 124A*, 1938 Supplement.

the administrative level, to the much narrower bonding, plant building, leasing, and central supervision features of the BAWI. The law could be one thing; the practice, a lesser thing.

Details of the Industrial Act

The provisions of the Industrial Act may be summarized briefly, with quotations in part.¹¹

Its heading began: "An Act recognizing Mississippi's necessity to protect its people by balancing agriculture with industry . . ." A lengthy preamble set forth the existence of an "acute economic emergency" involving both unemployment and lack of agricultural markets, of which "the sole remedy . . . is to develop industry so that her citizens may be afforded a livelihood . . ."

The act proper began with a declaration of policy, in part as follows: ". . . the present and prospective health, safety, morals, pursuit of happiness, right to gainful employment and general welfare of its citizens demand, as a public purpose, the development within Mississippi of industrial and manufacturing enterprises . . ."

The later sections set up a State Industrial Commission of three members (one full-time and two part-time) and charged it with the execution of this policy. The commission was specifically empowered to determine:

. . . whether the public convenience and necessity require that any municipality shall have the right to acquire lands and thereon to erect industrial enterprises and to operate them and to dispose of such lands and industrial enterprises.

Upon application by a local government, the commission was empowered to issue a "certificate of public convenience and necessity, determining that the public convenience and necessity and that the general welfare require that such municipality enter into such enterprise."

Before granting such certificate, the State Industrial Commission was required to satisfy itself as to certain points. At least 20 per cent of the registered voters of a local government had to petition directly for the certificate. Surplus labor supply in the area had to be sufficient to provide one and one-half workers for each prospective job. Bonds issued for the purposes of the act might not exceed 10 per cent of the

¹¹ *Mississippi Laws*, 1936, First Extraordinary Session, Ch. 1.

total assessed valuation of the property in the issuing unit. Finally, the commission had to find that:

. . . said enterprise is well conceived, has a reasonable prospect of success, will relieve unemployment, or will add materially to the financial and business interest of the municipality, will not become a burden upon the taxpayers of the municipality, and that the municipal officers proposing to operate said enterprise are suitable, competent and fit persons to direct and control such operations.

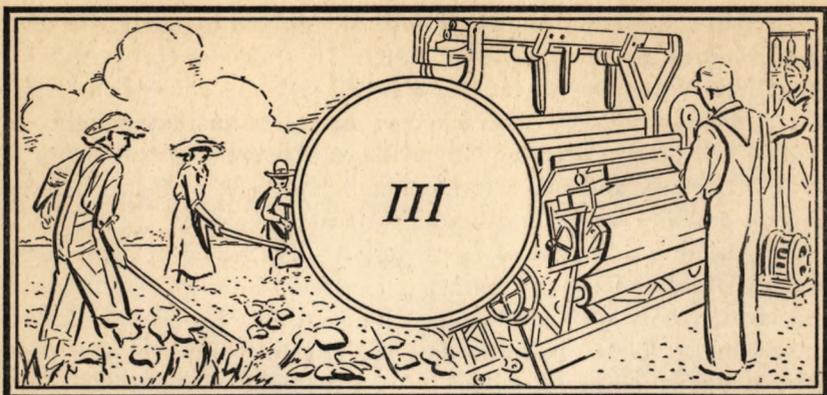
This last provision was the heart of the act, in practice. It passed the question of direct municipal operation of factories squarely up to the commission, which, in order to keep public operation of factories out of the picture, had only to declare that the municipal authorities were not "suitable, competent and fit." Since a later clause in the act provided that a municipality might lease to private operators any manufacturing facility that it did not operate, Governor White's original objective was thus attained in roundabout fashion. In practice, the municipal authorities were invariably found by the commission not to be "suitable, competent and fit" to run a factory. Thereby, the leasing provision was brought into play.

Additional provisions related to the bond issues, the terms being on the whole the usual ones, except that the burden of the securities was exempted from the municipal taxation limits and also from state and local taxation. It was provided that surplus sinking funds of counties or municipalities instead of funds from bond issues might be used in acquiring factory premises.

Tax exemption for five years was granted upon all privately owned equipment used to operate a subsidized plant but not upon the products manufactured. Such exemption reiterated a law that was already on the statute books and remains in effect in Mississippi today.¹²

This act, embodying the BAWI plan, successfully passed both state and Federal appellate tests. It was terminated in 1940 by legislative repeal.

¹² *Mississippi Code, 1930, Anno. sec. 3109.*



The BAWI Plan on the State Level

Selection of the Commissioners

Following the enactment of the Mississippi Industrial Act, the first step in practice was that of setting up the State Industrial Commission. The act provided for the appointment by the Governor of three commissioners, one full-time and salaried, the others part-time and compensated on a per diem and expense basis. Their terms were to extend until April 1, 1940, "or until their successors are appointed," an arrangement that recognized the experimental nature of the act and would give the next governor (in Mississippi a governor may not succeed himself) a three-month opportunity to decide the fate of the experiment.

Governor White went outside the political field in selecting the commissioners. As the full-time member and chairman, he selected Harry O. Hoffman of Hattiesburg, assistant to the vice president of the Mississippi Central, a short-line railroad. Mr. Hoffman was in charge of the public relations and community work of the railroad. He had come to Mississippi in railroad work 26 years before. Before accepting the BAWI appointment, Mr. Hoffman stipulated that the commission should be wholly free of political interference or influence. The Governor in turn stipulated that the commission should "do nothing for which we will afterward be sorry."

As part-time commissioners, Frank A. England of Greenville and S. A. Klein of Meridian were appointed. Mr. England had been with the Oliver Plow Company at South Bend, Indiana, and had been for several years its Southern sales manager, for a territory extending from El Paso to Norfolk. Selecting Greenville as his home, he had acquired the Ford agency and other interests and had been active as a bank director and as a leader in community affairs.

Mr. Klein was a retired merchant, having owned a department store in Meridian for many years. Later he had combined philanthropy and civic activity with his financial interests as a broker and investment banker. In Mississippi today, nothing but praise of this commission and its personnel may be heard from opponents and adherents of the BAWI plan alike.

The commissioners required an attorney and selected Forrest B. Jackson, who had assisted in drafting the Mississippi Industrial Act. At the outset Mr. Jackson established the technical procedures and forms, and at a later period he successfully defended the commission in the appeal proceedings before both the Mississippi and the United States Supreme Courts.

There were never more than the two secretarial employees, Frances Hammond, who served throughout the life of the commission, and Wallace Ijams, who served during part of that period. The total cost of the commission, to the state, for its entire duration, was \$77,250.

It should be mentioned at this point that the original commissioners served only about three years, resigning in January 1940, when Governor Paul B. Johnson succeeded Governor White. They were succeeded by three new commissioners, who liquidated the operation. Three of the 21 certificates of public convenience and necessity were granted by the successor commission.

Activities of the Commission

Sped by the general publicity given to the plan by advertisements of the Mississippi Advertising Commission in trade journals and other national media and by a series of advertising circulars prepared by the same commission, the flow of proposals and inquiries began.

The routine work of the State Industrial Commission and its staff consisted in screening these proposals, sifting the good from the bad. How thoroughly this task was performed is attested by the small number of deals finally approved.

In all, about 3,800 inquiries and propositions were received (a considerably smaller number than had been anticipated). Of these, more than nine tenths were quickly eliminated. In some cases the inquirer failed to respond to the first routine reply, which consisted of a transmittal letter with a circular. In other cases the propositions were clearly impracticable and, occasionally, fantastic.

The propositions that were adjudged impracticable included some suggestions for the establishment of new, indigenous Mississippi industries, involving the formation of new companies in the venture category. Although the Mississippi Industrial Act contained wording in contemplation of this type of development and included a list of Mississippi agricultural, lumber, and mineral raw materials that might be processed, the continuing attitude of the commission was that neither the time nor the managerial and labor-skill situation in the state warranted a public subsidization of new hazards. The emphasis of the commission throughout its operations was upon the extension of established enterprise, not the birth of new. Governor White in 1938 called a "Chemurgic Conference," the express purpose of which was to find new uses for Mississippi's agricultural products and natural resources, but nothing concrete came from the conference.

The initial screening or sifting process brought the 3,800 proposals down to 300 that appeared worth while. The investigative work then began.

Unfavorable credit reports were grounds for eliminating many of the 300. Others were eliminated because of unfavorable reports received through various channels of direct inquiry, which were exceptionally complete. The commissioners had business and financial connections in New York and other cities. Mississippi's senators and representatives had others. The business and financial leadership of the state was interested in the commission's work, and placed various sources of information at its disposal. Industrial departments of power companies and railroads contributed. The records show a constant participation in many aspects of the BAWI movement by R. S. MacFarlane and B. M. Davis of the Mississippi Power and Light Company and by Dave Cottrell of the Mississippi Power Company. Central sources of information of these companies were also used. The commissioners also investigated in person. The superior ability of a strongly manned state board to bring investigative power to bear on distant enterprises was thoroughly established by this commission.

The 300 propositions were in turn brought down to about 100. The work then involved a concentration upon those 100, with the result that 60 manufacturing concerns became sufficiently interested to send their representatives into the state for interviews and inspections. These visitors were interviewed, taken around Mississippi, introduced to local officials, and shown industrial sites. In the process they themselves were thoroughly looked over. By deliberate decision, the commissioners sedulously avoided an attitude of salesmanship in dealing with both the interested visitors and the municipalities. Their attitude was that the momentum would be supplied by the Advertising Commission, the localities, and the industries themselves, and that the commission's proper position was that of an independent and impartial arbiter.

Out of the final 60 firms that showed definite interest in Mississippi came the issuance of 21 certificates of public convenience and necessity—18 issued by the original commission, three by the successor group. Twenty of these certificates covered new establishments and one provided for a plant enlargement. For various reasons that will be examined, eight propositions fell through in final stages; thus only 12 plants were eventually established under the BAWI plan.¹³

For the original 3,800 proposals, there was an over-all mortality rate of 99.7 per cent. For the 300 propositions that seemed fairly promising, the mortality rate was 90.1 per cent. Such mortality rates arouse reflection, on the one hand, as to whether the commission may not have been too conservative—as is occasionally claimed today—and, on the other hand, as to the prevailing quality of subsidy-seeking industries and the bad effects upon the economy of the state if the acceptance test applied by the State Industrial Commission had been less severe.

The Process of Certification

The central power of the commission was that of issuing the certificate of public convenience and necessity. In practice, certain preliminaries preceded the issuance of certificates. While the actual bargaining was done primarily by the county and local authorities, the prestige of the commission was such that its members were invariably called in to hear the local discussions and to advise. The final granting of the

¹³ These plants are listed by name and location in table 1, page 7.

certificate, accordingly, required no new presentation of facts and became more or less a formality. Conversely, the mere verbal and informal indication to the local leaders that the commission would disapprove of a given proposition if formally applied for was invariably enough to bring about the abandonment of that proposition midway. The official record shows no instance of the denial of a certificate, once it was actually requested.

The first formal step in the process of certification was the signing of petitions in the localities. The signatures of 20 per cent of the registered voters were required, but in most cases this percentage was far exceeded. (For example, in Pascagoula, on the shipyard deal, 80 per cent of the registered voters signed petitions and the bond election was virtually sure of success.) The standard petition read:

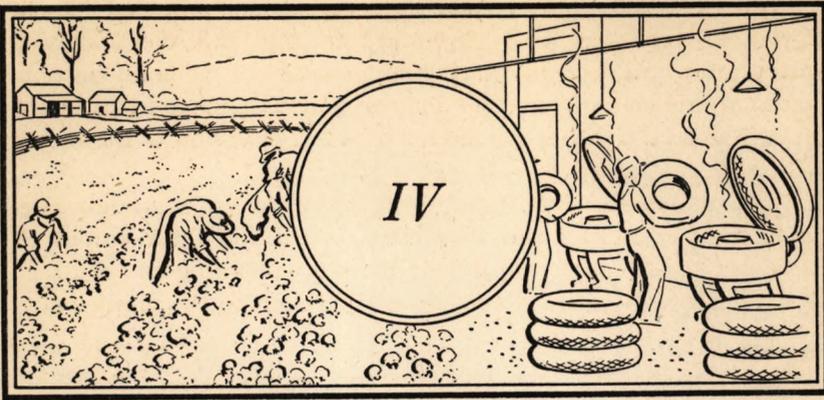
We, the undersigned qualified electors of _____ hereby petition your Board to make request of the Mississippi Industrial Commission for the issuance by said Commission of a certificate of public convenience and necessity after hearings and investigation by said Commission, permitting this municipality to avail itself of the provisions of Chapter I, of the Laws of Mississippi, First Extraordinary Session, 1936, being Senate Bill Number 1, of said Legislative Session approved by the Governor on September 19, 1936.

Next came the filing with the commission of these petitions, together with the statement of the valuation of the city assessment roll by the county or municipal tax collector and of the existing bonded debt by the clerk. The clerk also replied to the formal questionnaire of the commission, giving numerous items of prescribed information: total number of electors, number signing petition, estimated employment of the proposed industry, estimated average weekly and annual wage per worker, length of proposed lease, estimated number of surplus workers in area, estimated number of operative jobs in the proposed industry, total assessed valuation, amount of proposed bond issue, terms of the bonds, estimated tax rate for interest and retirement, cost of proposed site, and size of proposed building and its estimated cost.

The next step, in the event a project was accepted, was the formal granting of the certificate of public convenience and necessity. The record shows that all certificates granted were unanimously approved by the commissioners.

Then came official study and approval of the proposed leasing contract between the local governmental unit and the operating concern. After this came the official authorization of the bond election, stipulating the amounts and the interest and retirement terms of the bonds. The final step was the receipt by the commission of the record of the vote that had been cast.

At this point, the commission's role ended, except for a few cases in which the contract terms were later revised and the revisions required commission approval. Buying the land, planning and contracting for the building, and similar details were left to the municipality or county concerned.



The BAWI Plan on the Community Level

Local Variations and Uniformities

As is often true of a two-level system, the BAWI plan had uniformity at the top but provided ample leeway for variation at the bottom. This fact of wide variation is important in considering how the system worked out in the various communities to which certificates of public convenience and necessity were granted by the state.

No two local experiences proved to be precise duplicates. The industrial types and managements of industries varied; so did the communities, their leadership, and their respective bargaining positions. The eagerness of communities to obtain new industries and the results of that eagerness likewise varied. Some communities found themselves engaged in bidding against rival communities. Some prospective lessees made greater demands; some towns made greater concessions. Therefore, variety existed in the contract terms, both as to form and content. Two communities lost prospective plants because of internal community opposition. Of the industries that became established, some found themselves both economically and psychologically at home; others remained to some extent strangers in their new locations. As time passed, yet greater variations developed because of

the effects of the rising business cycle, the defense effort, and the war.

Despite these variations, certain experiences were at first common to all the enterprises that were established. The initial contact between the local leaders and the representatives of industry led in every case to more or less protracted bargaining; and the commission participated in the discussions, generally by municipal invitation. Then the preliminary contract was framed, its approval by the State Industrial Commission being generally assured in advance.

The next official steps taken were those previously described for obtaining the certificates of public convenience and necessity. These formalities having been completed, and the state certificate received, the bond campaign began. In some cases, passage of the bonds was a foregone conclusion, enough voters having already signed the initial petitions to guarantee such result. In others, parades were held, speeches made, and public opinion aroused. Except in one or two communities, the majorities voting in favor of the bonds were extremely large.

Approval of the bond issues was followed by other equally necessary steps. The bonds were sold. The site was bought. The local board of public works and the tenant management agreed on the construction plans. The public contracts were let, and the facilities constructed. While these steps were being taken, job applicants were listed and interviewed. The selected applicants were trained, the school authorities and the plant management generally co-operating in the training process. The machinery—provided by the tenant concerns—arrived and was installed. Community interest in the new project was thus kept at a high pitch and, when opening day arrived, a celebration usually took place.

Once production began in the subsidized plants, expansion of employment normally followed. In virtually every instance, the contract quotas of numerical employment or total pay roll were attained well in advance of the stipulated dates. This success is generally ascribed to the learning capacity of the resident labor supply, as well as to experienced management and the process of industry selection.

The pathway of newly established organizations never is completely smooth, but as far as the BAWI enterprises are concerned, the production story with few exceptions was one of unexpectedly quick attainment of normal operative capacity.

The factory structures that were built by the municipalities were

and are today creditable in appearance and efficiency. As a rule these buildings are of reinforced concrete construction, well lighted and ventilated, plain and without ornamental features. Few of them, of course, are large. They are located, as a rule, in semiopen or wooded country on the outskirts of the towns. Ground space being ample, they are generally of the one-story type with the entire operation on a single floor. Some have lawns, and community pride is shown in the neat appearance of the buildings and grounds. Because the land was cheap and the municipal governments had the equipment for grading and concrete work, the dollars expended went far. As previously stated, the buildings were laid out on plans satisfactory to the tenant concerns, if not actually drawn by them; in some instances extensions were later added as the operations expanded.

Since the buildings were part of the subsidy, it follows that the tenant concerns occupied them at very small rentals. The contracts varied somewhat in this respect, but in most cases the basic payment was a token rental of either \$1 or \$5 a year, coupled with what may be termed a penalty payment if the stipulated minimum total pay roll or total number of workers was not reached, and a credit if exceeded in any given year. For example, this additional rental may be stated at \$1,200 a year, reducible by 50 per cent if the pay roll reaches \$30,000 annually and by 100 per cent if it reaches \$60,000; while the excess above \$60,000 is applicable to the succeeding year or to any year in a five-year period. In some cases, the building would be the property of the tenant after a given period of pay roll production, free or at a depreciated price. In one case where the rental charge was a flat \$3,600 annually for a 50-year period, the first five years' payments were forgiven. In short, the revenue directly obtained by the local government through the lease of the facilities was in most cases virtually nil; the compensation primarily sought was the pay roll, regarded as income to the community in general.

The redemption of bonds, the interest, and the costs of the paving, grading, and other municipal services, thus was thrown back upon the general taxpayer. It is for this reason that the bonds were not, in the strict sense, revenue bonds resting upon the returns of the enterprises to the public treasuries, but full-faith-and-credit bonds based upon the general assessment rolls. In theory, the taxpayers were assumed to share in the pay roll returns, whether directly or indirectly. Thus

they were assumed to be compensated for the bond charges, which ordinarily represent two to five mills in the local tax rates.

The theory presupposes that the voters who voted the bonds, the taxpayers who must retire them over 20-year or 25-year periods, and the beneficiaries of the factory pay roll are identical. This, of course, is not always the case; presumably there are voters who pay no taxes and taxpayers who do not share in the benefits of the pay roll either directly or secondarily. Roughly, however, in small communities a sufficient coincidence exists among these three groups so that the theory is seldom questioned.

In the total employment of the BAWI plants, the men today outnumber the women, but in the plants first established, the employees were mostly women and girls. This fact was related to the types of manufacturing that responded most readily to the subsidy; only within those types could the State Industrial Commission make its selection. The commission favored hosiery plants as a superior kind of fiber industry; as has been seen, four hosiery plants were founded, as well as a woolen knitting mill, a chenille concern, and three shirt factories. (Textile mills had figured in the Columbia-plan type of subsidization, but none were established under the BAWI.) These types of industry emphasized female employment. The small towns previously had provided little opportunity for female employment, although the large families, characteristic of the area, included women and girls who wanted employment. Frequently heard during the inquiry made for purposes of this study was the statement that the \$15 or \$18 a week brought home by the daughter from a BAWI plant equaled or exceeded the cash earnings of the father on the farm. This background of low farm income cannot be omitted from the consideration of this and other aspects of the BAWI.

The wage levels in the BAWI plants, especially at the outset, were low in relation to national or industrial standards. Every factor of a low-wage situation was present in these communities: the protracted history of general impoverishment, the large labor surplus, the lack of alternative employment other than that of the WPA, the lack of industrial experience and training of the labor, and the absence of any legal or organizational floor under wages. That the new enterprises in some cases took shrewd advantage of these background circumstances is regrettable rather than remarkable.

Against their background of need, the local governments were weak in bargaining power. The contracts were made in terms of total pay roll, with no stipulation as to individual wages beyond the vague requirement that prevailing standards for the same type of occupation in the same area should be observed—a requirement that, in practice, meant little or nothing. Questions as to this wage situation were and are today usually answered by the statements that the labor was untrained, that the female workers lived at home and were not dependent solely upon wages, and that living costs were low.

Regardless of the fact that individual wages tended to be low, most BAWI communities today date their prosperity from the advent of the new plants. The communities responded to the total pay roll. To the individuals, half a loaf in wages looked extremely large.

A trend of wage betterment, however, was at work. The demonstration of this principle was one of the most important developments of the BAWI. First, in October 1938 the national Fair Labor Standards Act went into effect, and the BAWI plants that were already in operation, in most cases, had to raise their wages to meet the minimum. But, also, from 1939 onward the total wage payments in these plants, with a single minor exception, continued to rise year by year, and to do so much more rapidly than the average numerical employment. This gain is shown in table 2, in the form of index figures based upon the 1939 average employment and pay roll.

The rapidity of the rate of wage increase above the rate of increase in the numerical employment is seen in some cases to have been phenomenal. Some such consequence was foreseen by the leaders of the BAWI. They reasoned: start a new plant, and it will expand and increase wages if it is sound; provide employment, and the productivity of the worker, hence his wages, will increase with time; absorb the labor surplus of any locality (all contracts required the preferential hiring of resident labor), and wages may ultimately respond to a local scarcity of workers. The war brought about these results with abnormal speed. Nevertheless, the principles involved would probably have operated to some extent had there been no war.

In Jackson, one may still hear favorably quoted the dictum of Justice W. D. Anderson, who dissented from the majority opinion by which the Industrial Act was finally upheld. "In my judgment," he wrote, "the majority opinion drives a steam shovel through our

TABLE 2
INDEXES OF NUMERICAL EMPLOYMENT AND ANNUAL WAGES PAID IN
PLANTS ESTABLISHED UNDER THE MISSISSIPPI INDUSTRIAL ACT ^a

	1939	1940	1941	1942	1943 ^b
Ingalls Shipbuilding Corp.					
Number of Workers	100	400	804	1870	2877
Wages	100	471	1404	4169	6385
Jackson County Mills, Inc.					
Number of Workers	100	95	125	132	117
Wages	100	110	156	176	182
Grenada Industries, Inc.					
Number of Workers	100	97	104	149	232
Wages	100	111	137	195	369
Lebanon Shirt Co.					
Number of Workers	—	100	278	462	493
Wages	—	100	328	598	719
Armstrong Tire and Rubber Co.					
Number of Workers	100	197	224	161	228
Wages	100	206	273	217	418
Crystal Springs Shirt Corp.					
Number of Workers	100	120	198	197	154
Wages	100	127	249	306	232
I. B. S. Manufacturing Co.					
Number of Workers	—	100	224	231	263
Wages	—	100	443	538	693
W. G. Avery Body Co.					
Number of Workers	—	—	100	339	89
Wages	—	—	100	355	100
Real Silk Hosiery Mill					
Number of Workers	100	116	182	172	207
Wages	100	145	183	254	248
Winona Bedspread Co.					
Number of Workers	—	100	202	176	330
Wages	—	100	197	216	467
Hattiesburg Hosiery Co.					
Number of Workers	100	261	232	168	50
Wages	100	305	315	273	84
Ellisville Hosiery Mills, Inc.					
Number of Workers	—	—	100	457	636
Wages	—	—	100	824	1137
TOTAL, ALL COMPANIES					
Number of Workers	100	194	332	567	787
Wages	100	235	536	1271	1900
TOTAL WITHOUT SHIPYARD					
Number of Workers	100	142	213	240	262
Wages	100	157	246	302	400

^a First full year of operation was taken as the base year for each plant. The numerical employment used in the calculation is the annual average. The wages are the annual totals.

^b Based upon first six months.

Constitution." In the smaller communities, daily familiarity with the factories in publicly owned buildings has left no more consciousness of an anomalous situation than is felt by the average rider on a publicly constructed subway that is leased for private operation.

When the BAWI plan is considered from the financial side, it is to be noted that the bonds sold readily, except for a few early offerings that were made prior to the appellate decisions establishing their legality. The securities were absorbed by local banks, by banks in other Southern cities, and by brokerage and investment banking houses, singly or in groups. In one case, a power company acquired part of an issue and, in another, a Midwest insurance concern bought a considerable block. The bonds could not be sold at less than par initially; and in some cases, owing to competitive bidding, they were sold at a slight premium. On resale, they generally appreciated—some issues considerably. The bonds were not revenue bonds, based on the small income from the rental of plants, but full-faith-and-credit securities backed by the county or city assessment rolls. The local governments had to be sufficiently solvent to support the bonds, under the terms of the law.

The general demonstration was that capital responded readily to this form of investment in a period when it was not responding to private industrials, especially small industrials. In no case, it may be emphasized, has there been to date a single instance of default or delay by a municipality or county in meeting interest and retirement charges on these BAWI bonds. This fact reflects the pay roll income that was created, strengthening the communities' ability to carry the indebtedness, adding to the per capita income, and increasing the local bank deposits.¹⁴

Nevertheless, some bankers who disapproved of the BAWI plan express the opinion today that the general credit standing of the participating municipalities was adversely affected. The institutions that these bankers represent have refrained from investing in these particular securities. This aspect of banker opinion is generally based upon a disapproval of community subsidization and a denial of its ultimate economic wisdom.

¹⁴Deposits in member banks in BAWI communities rose from \$50,380,000 in December 1938 to \$119,187,000 in December 1942. The BAWI pay rolls, however, were not the sole influence.

The Question of Interpretation

In interpreting the degree of influence exercised by the BAWI system upon the success or nonsuccess of the individual subsidized plant, a knotty question arises: that of deciding whether any particular incident or trend was or was not a direct result or ultimate consequence of the plan. Other causative factors besides the BAWI system of plant founding and subsidization were clearly at work, both at first and later. Local community conditions, types of industry and management, the personal wisdom of officials and leaders of the towns, differences in financial judgment, the rising trend in the business cycle—all played their part. In Mississippi, where there is still a perceptible line-up of opinion for or against the BAWI, confusion exists on this matter of causation.

Two illustrations of this difficulty of interpretation may be given. During the latter part of 1942, in Hattiesburg, a silk hosiery mill that had been established under the BAWI plan and had operated successfully up to that time began to lose its labor to the near-by war industries and to feel the shortage of silk. In June 1943, this plant shut down and left the community with a vacant factory structure on its hands. During the same period, in Grenada, a silk hosiery mill that was also a BAWI plant and was similar to the Hattiesburg concern in many respects added a shell-manufacturing unit and kept on expanding. Some former critics of the BAWI dwelt upon the Hattiesburg occurrence as a sign of the weakness or failure of the BAWI system. Former protagonists of the BAWI plan regretted the Hattiesburg experience, but pointed to the Grenada experience as a sign of the success of the plan.

Yet such diametrically opposite results could hardly have arisen from the same single cause, even at the outset, much less after a considerable period of time. The BAWI was not the causative factor in either of these cases. What these two episodes primarily presented was a difference of reaction on the part of nonresident managements (in the one case in New York, in the other case in Indianapolis) to business conditions brought about by the current war.

The same confusion has existed in regard to the issue of low wages, previously discussed. To what extent was the BAWI, whether as a plan or as an administrative system, responsible for the wage levels? As has already been indicated, the economic situation in the

state was one root cause; the BAWI was expressly called into existence to remedy that situation. Thus the fact that wages were not higher at the outset represented the initial obstacle faced by the plan. It has been suggested that a stronger stand might have been taken; that the State Industrial Commission, while it could not under the law write wage minima into the contracts, might have influenced the local governments to do so. It may be seriously questioned whether these suggestions were at all practicable under existing circumstances. It is probable that the mere attempt to do so might have caused these applicant enterprises to go to some competing place.¹⁵ In reality the employing managements alone fixed the terms of employment, and the BAWI policy of starting a plant and trusting to economic developments to better the wage levels was probably the only policy possible under the conditions.

In short, discrimination must be exercised in judging the BAWI plan solely by its fruits. That is a process that leads to overpraising it in some respects, underpraising it in others. The fruit of a tree is affected by soil, climate, and cultivation long after the initial planting. As an industrial "planting" system, the BAWI did have certain continuing effects that must be clearly distinguished from the other influences that were at work first and last. To explore this distinction at this point is to aid the interpretation of the individual case stories that follow.

To begin with, under the system, the particular enterprises were selected for their operative strength. This selection meant that the enterprises had higher-than-average chances of survival and growth and thus protected the communities against instability; but it also meant that the enterprises were tough bargainers and that decisions vitally affecting the Mississippi communities were made at distant points with reference solely to the needs of the corporate interests involved. In no case did these selected concerns strictly need the subsidy that was offered; this basic contradiction runs throughout the BAWI plan. The choice lay between (1) subsidizing relatively strong organizations or (2) bringing in weak concerns; in choosing to avoid the latter type of hazard, the commission and the localities further reduced their comparative weight at the bargaining table. Some of the incidents in the record of the subsidy experiences are traceable to

¹⁵ The effect of the Federal Seamen's Act on the American Merchant Marine in the 1920's offers material in point.

this cause, which in turn was intrinsic in the BAWI plan as it was administered by the State Industrial Commission.

Subsidized plants received three different kinds of public aids. First, capital subsidies were offered. The communities issued and sold \$980,500 in bonds to provide \$834,500 in lands and buildings and \$146,000 in later expansions and incurred other expenses to an unknown sum. The industries, however, did not immediately benefit to the entire amount of this aid. Offsetting the direct subsidy at the outset were their capital outlays for new machinery and equipment, the costs of getting into production, and incidental expenses. In some cases, where the machinery was merely rented, the net capital endowment represented by the ground and building was probably a considerable portion of the total capital investment; in others, the usual explanation that the subsidy only "helped pay the moving expenses" is nearer the truth. Land and buildings are normally a minor but by no means a negligible element in capitalization. The capital subsidy must be regarded as having had a beneficial and continuing effect upon the capital position of the enterprises and as giving them varying degrees of advantage in competition.

The second kind of subsidy was the current-expense saving in the costs of plant occupancy. The tenant enterprises paid and, in most cases, still pay a rental very low in relation to the value of the property. If measured by the current costs to the taxpayers for bond interest and redemption, this saving amounts to roughly \$70,000 a year distributed among these enterprises. This, however, is no great sum, and there is an important offset. Some plant managements assert that their disadvantage from increased freight costs, arising from their added distance from affiliated plants or from their markets, is greater than their current savings in costs of occupancy. This contention, which amounts to the statement that the subsidy only equalizes competition by overcoming a locational disadvantage, may conceivably apply to some of these cases. But there are other cases in which transportation costs have been actually reduced by location in Mississippi and in which this continuous economy in occupancy costs is accordingly of real importance.

The third kind of subsidy is the five-year tax exemption on privately owned machinery and equipment in the plants. This exemption is, or has been, of advantage to the enterprises only in those cases in which competitors do not have the same advantage. Tax exemption

is no Mississippi patent, and in the hosiery and garment industries especially there are many competing concerns in other states that are equally tax free. Where industrial tax exemption is sufficiently general, its main effect is that of reducing the public revenue, rather than that of conferring competitive advantages. One or two plants on the BAWI list have, however, been greatly aided in competition by the saving in taxes.

These three kinds of subsidies constitute the total of the public aids extended to enterprises by the BAWI. Their sum has undeniably given certain of these enterprises a definite competitive edge, and this effect is continuous. The same competitive advantage was accorded under the old Columbia plan, which also granted land, buildings and municipal services, low rent, and tax exemption—but to less carefully selected enterprises. Thus, there is a broader base than the BAWI sample alone for the conclusion that all three types of subsidy put together would not be sufficient to overcome continued bad management, inadequate or improper financing, loss of markets, or lack of any of the primary requirements of industrial survival. Subsidy undoubtedly helps, but it does not determine, the continued competitive success of the beneficiary concerns.

Perhaps the principal effect of the BAWI system was its influence upon plant location. The plan operated to induce strong enterprises to locate in what was to all intents and purposes a virgin industrial territory. This primary fact of locational influence was in most cases a greater aid to the industries than the specific subsidies, for Mississippi itself, apart from the BAWI, had much to offer to these enterprises in the way of cost savings due to climate, freedom from regulatory legislation, and low labor costs. In one outstanding instance, major considerations were a good shipyard site and access to raw materials and, in another, the consideration was nearness to a market that it was desired to develop.

All in all, it cannot be said that the BAWI system was in itself the fundamental or decisive factor in determining many things that were ascribed to it at the outset or that have been ascribed to it since. Rather, its offer of aids was a marginal factor, serving to precipitate half-formed decisions of management, to ease and aid the transitions, and to grant some degree of continuing advantage in the business positions of the enterprises.

Narrative of the Community Subsidy Experiences

The case stories of the 21 instances of certification under the BAWI system can now be presented. In this presentation the order of certification is generally followed, but the community itself is made the focal point of interest. Table 3 summarizes the basic data.

Cities of Durant, Cleveland, and Grenada

Certificates numbers 1, 3, and 4, issued to the cities of Durant, Cleveland, and Grenada, originated from an expansion program of the Real Silk Hosiery Mills, Incorporated, of Indianapolis, Indiana. This company already had a branch plant in Dalton, Georgia, and in the latter part of 1936 proposed to establish three more branches. Attracted by the publicity of the Mississippi plan, the company's representatives were put into touch, by the State Industrial Commission, with local officials of Durant, Cleveland, and Grenada, Mississippi. These officials and commission members visited the Real Silk plants at Dalton and Indianapolis and conferred with the brothers Jacob A. and Lazure L. Goodman, who headed the concern. The BAWI leaders liked both the particular company and the prospect of starting the new BAWI system by getting three plants in a single transaction.

The Durant proposal called for a building costing the public \$25,000; the consideration was a minimum \$60,000 annual pay roll and \$5 annual rent. The certificate for the Durant subsidy deal was the first that was granted by the Mississippi Industrial Commission after Chairman Hoffman's appointment.

Durant previously had been supported by railroad shops, but it had lost this employment. The voters authorized the \$25,000 in 6 per cent bonds by a vote of 330 to 19. Then two obstacles arose. The constitutionality of the law had not yet been tested and the legality of the entire situation was in doubt. Hence, the Durant bonds would not sell, in spite of the 6 per cent interest rate, and after a time they were withdrawn from sale. Simultaneously, in Indianapolis, the Goodmans, who had done the bargaining, withdrew from the Real Silk Corporation.

At this point, a Mississippi investor, with banking support, after receiving legal advice from a leading bond attorney, bought the entire

TABLE 3

SUMMARY OF THE DETAILS OF THE CERTIFICATIONS OF PUBLIC
CONVENIENCE AND NECESSITY ISSUED BY THE STATE
INDUSTRIAL COMMISSION OF MISSISSIPPI

No.	Date	Issued to	Amount of Bond Issue	Life, Max. (Yrs.)	Int. Rate (Pct.)	Result
1.	12/ 8/36	City of Durant	\$ 25,000	25	6	Plant established
2.	1/27/37	City of Amory	50,000			Plant independently established
3.	3/ 4/37	City of Cleveland . . .	32,000			Defeated by voters
4.	3/16/37	City of Grenada	32,000 ^a	21	4	Plant established
5.	3/30/37	Jackson County (District 3)	150,000	25	5	Plant established
6.	4/19/37	Jackson County (District 1)	10,000	Appro- priation		Plant established
7.	6/ 1/37	City of Terry	15,000			Negotiations failed
8.	6/ 1/37	City of Winona	35,000	25	4	Plant established
9.	7/19/37	City of Union	35,000	25	6	Plant established
10.	10/ 5/37	City of Natchez	300,000	20	3½	Plant established
11.	10/ 5/37	City of Newton	35,000			Negotiations failed
12.	8/17/38	Forrest County (District 2)	67,500	25	3½	Plant established
13.	10/20/38	Jackson County (District 1)	100,000	25	4½	Plant established
14.	6/ 2/39	City of Iuka	8,000			Negotiations failed
15.	9/18/39	City of New Albany . .	25,000	20	3	Plant established
16.	10/ 3/39	Jackson County (District 2)	75,000	25	3½-3¾	Plant expanded
17.	11/21/39	City of Crystal Springs	25,000	20	3½	Plant expanded
18.	12/29/39	City of Biloxi	75,000			Negotiations failed
19.b	2/23/40	City of Ellisville	30,000	25	3½-3¾	Plant established
20.b	3/22/40	Harrison County (District 1)	75,000			Negotiations failed
21.b	3/27/40	Lee, Prentiss Counties (District 2)	40,000			Bond sale enjoined

^a Supplemented by later issues of \$6,000, \$15,000 and \$50,000 for expansions.

^b Issued by successors to original commissioners, who resigned in January 1940.

Durant issue at par. Friendship for the White administration figured in this purchase; the Governor's adherents did not want to see the first BAWI deal fail. The apparent financial risk that was involved in the purchase did not materialize, however, and later, the issue was resold at 115, with some of the series subsequently rising still higher.

Real Silk, under its new officials, decided to go ahead with the agreement. The Durant operation started in 1938. The total pay roll

stipulation of \$60,000 a year was exceeded in 1939, and both employment and wages since then have risen rapidly. The product is finished hosiery, sold direct to the consumer through a widespread system of house-to-house selling. The plant continues in successful operation today, though some reduction in employment occurred in the spring of 1943.

Certificate number 3, which was issued to Cleveland, was to have established a second Real Silk plant. But this became the only instance in which approval by the State Industrial Commission was followed by failure of the voters to endorse the bond issue at the polls. The proposed \$32,000 bond issue got a majority of 222 to 163, less than the necessary two-thirds. Reflecting the attitude of the opposition, a Cleveland newspaper before election called attention to the prospective wage levels and asked: "Is that the class of laborers we want in Cleveland? . . . We insist that if a factory concern is not big enough to erect its own building, and doesn't want to come to Cleveland that bad, let them stay away. . . . Steady growth is better." Enough voters responded to this argument to veto the deal.

Grenada approved its bond issue by a vote of 412 to 69. The bonds were purchased by local and Memphis banks. The operating concern, which had remained in the Goodman interest, was incorporated in Mississippi as Grenada Industries, Incorporated. It leased about \$450,000 worth of equipment, hired workers specially trained for the purpose by the public schools, exceeded its stipulated \$60,000 annual pay roll by four times in 1939, and expanded with especial rapidity after September 1941. Three expansions of the building occupied by this firm were financed by additional public bond issues: the first, at the outset, for \$6,000 at 4 per cent; the second, in 1939, for \$15,000 at 3 per cent; and the third, in 1942, for \$50,000 at $2\frac{3}{4}$ per cent. The basic operation of the company is the manufacture of hosiery in the gray, which is finished and sold in Indianapolis. A shell-manufacturing plant has been added and this is among Mississippi's more important war industries today.

The community aspect of the Grenada operation has had an interesting bearing upon labor relations. The original contract included the following provision:

The Second Party [Grenada Industries, Inc.] pledges itself to be fair in all of their dealings with employees and to pay fair and reasonable wages, and the First Party [the City] agrees that

it will so far as possible prevent any interference from outside sources which may cause or result in labor disputes or trouble, and the pay roll guarantee hereunder by the Second Party shall be cancelled during the period of any labor disturbance caused by outside interference.

This clause, apparently pledging the police power of the municipality to the policy of preventing attempts to unionize the plant, except by a company union, was amended in 1938 to emphasize the preferential employment of local residents and to provide that:

The Second Party pledges itself . . . that it will not require membership in any organization, religious, fraternal, or otherwise, as a prerequisite to entering the employment of said Second Party. Second Party agrees that it will not enter into any contract with any group of employees unless and until said contract shall first have been submitted to First Party [the municipality] for its approval.

This agreement, in effect, apparently required the approval of the Board of Aldermen to a collective bargaining contract, even should the tenant concern seek to depart from its pledge and become a closed shop. The implications of this provision do not appear to have been explored in practice.

However, community involvement in labor relations at Grenada has appeared in another form. Early in the operation, some incidents of firing, dispute over the effective date of a wage increase, and a shift-freezing plan of the management, impelled the workers to appeal to the superintendent of schools, under whom most of them had gone to school in the past and under whose supervision they had been trained for this work. Upon the management's agreeing, a plant election was held at which the workers chose a committee to umpire grievances. The committee consisted of three men—the superintendent of schools, a local merchant, and a local theater owner. This committee served for some time; in all cases, its recommendations were accepted by the management and the workers. The War Labor Board eventually superseded the committee.

Such a committee arrangement undoubtedly arose from a general feeling that the community had a certain proprietary interest in the manufacturing operation, owing to the plant's BAWI origin. The management of the plant did not share this feeling but was willing to "go along" with it. Grenada Industries, Incorporated, is well liked in its community, and it is the largest employer in the vicinity today.

City of Amory

Certificate number 2, issued to the city of Amory, resulted in a plant, but not under the BAWI system. After the voters had passed the \$50,000 bond issue by 542 votes to 25, the enterprise, fearing legal involvements, decided to do without the subsidy and constructed its own building.

Jackson County (Pascagoula)

Certificates numbers 5 and 6 were issued to Jackson County in behalf of the Onyx Knitting Mills, a family-held partnership operated by three Peterzell brothers in Philadelphia. This firm had had labor trouble and was looking for a new location in a place where a more stable labor force might be found.

Jackson County, Mississippi, in the area of Pascagoula, was at the same time in great need of manufacturing employment. In this area farming was poor, lumbering had declined, and a large rural population was in a condition verging upon distress. Through the industrial agent of the Mississippi Power Company, the Jackson County board of supervisors was put into contact with Meyer J. Peterzell, head of the Onyx Knitting Mills. From this contact resulted what was to become the second largest employing company in the BAWI list.

This company is now the Jackson County Mills, an important manufacturer of woolen bathing suits and sweaters. It was established on the outskirts of Pascagoula by a county bond issue of \$150,000 at 5 per cent, voted by a majority of 1,259 to 110. Of this issue, the largest BAWI financing to that date, \$100,000 was bought after competitive bidding by a group of brokers and bankers of Mobile, New Orleans, and other points, and \$50,000 was bought by the county itself. An annual pay roll of \$250,000 was stipulated in the contract.

The company was housed in a concrete building of about 100,000 square feet of floor space. The building was economically constructed by the use of county grading and cement mixing equipment and some county convict labor. It was later nearly doubled in size through funds supplied by a second bond issue of \$75,000, voted in 1938.

At the time of the enlargement, the Peterzells abandoned their Philadelphia parent plant and made Pascagoula their headquarters, while retaining an affiliated yarn mill in New England. The stipulated pay roll was considerably exceeded from 1939 on. The new employ-

ment changed the outlook of the area and resulted in mortgage redemption, farm improvement, and considerable building. Pascagoula today looks to this company for much of its future stability, the prospect of a postwar backlog of consumer demand for woolen goods being favorable.

A second Jackson County venture in subsidies, for which certificate number 6 was issued, brought to Pascagoula a plywood plant. The subsidy in this case was a building constructed from the proceeds of an appropriation of \$10,000. The stipulated annual pay roll was \$30,000. This was a case of the subsidization of an indigenous Mississippi industry, for the operating tenant was the W. G. Avery Body Company, a Mississippi enterprise with several plants, utilizing the state's hardwoods to make bodies and veneer parts for Detroit automobile concerns. The branch at Pascagoula had its highest employment in August 1942, after which date its number of workers gradually diminished. In 1943 this operation was consolidated with the parent plant at Jackson, Mississippi. A new tenant, the Pascagoula Decoy Company, making wooden equipment for the army, soon occupied the building.

A third Jackson County venture in subsidy, for which certificate number 13 was issued, was instrumental in part in bringing the Ingalls Shipbuilding Corporation to Pascagoula. This venture is usually regarded as the climax of the BAWI, but the causation in this case may be questioned, inasmuch as first-class shipyard sites are few and a company desiring to establish a yard in a certain general area may be presumed to know all the available sites and to take its choice. This venture included citizen activity as well as BAWI financing and had many ramifications.

In 1938, the Ingalls Iron Works Company of Birmingham, an important fabricator of structural and plate steel, planned to found a shipyard as an outlet for its products and to bid on Maritime Commission contracts then in view. Its representatives toured the Gulf Coast, looking for shipyard sites. Pensacola had an unoccupied site, and so had Pascagoula. Officials of Jackson County, in which the Pascagoula site is located, first suggested a \$50,000 subsidy but heard that Pensacola had offered \$130,000. Jackson County doubled its offer to \$100,000, and the offer was accepted by the parent company.

The site, of ample acreage, was unique in having a natural deep-water channel broad enough for endwise launching of the largest type of vessel. In addition, the site had an advantageous natural slant of

ground. During the first World War, this site had been used with success by the International Shipbuilding Corporation in building vessels for the Italian Government. The property had reverted to the city for taxes, but the title was clouded, several residents of the city of Hattiesburg having claims.

The first steps rather resembled the Columbia plan. The community leadership undertook to clear the titles and consolidate the land holdings. A citizen group was formed as a committee of trustees. It included a banker, who supplied the necessary financing, and an attorney, who went to Hattiesburg, interviewed the claimants, and obtained quitclaim agreements. The city government escrowed its tax titles with the trustees.

The county government then applied to the State Industrial Commission and received the certificate of public convenience and necessity for a bond issue of \$100,000, to be used in clearing, grading, and improving the shipyard site. The voters, 80 per cent of whom had signed the petition, passed the bonds almost unanimously. The clearing and grading work on the site was performed by the county. The Port Authority, which received reimbursement from the county, dredged and straightened the launching basin and drove a large quantity of creosote piling. Finally, the finished site was conveyed by the city to the newly incorporated Ingalls Shipbuilding Corporation, the committee of trustees acting as intermediary in the transaction.

Thus, by an instance of all-round co-operation among a citizen group, four governmental units, the voters, and the enterprise itself, the famous "250-mile assembly line" of the Ingalls concern was founded. The parent company provided the shipbuilding equipment, the new company bid for and obtained a \$10,000,000 Maritime Commission contract, and the first all-welded, "one-piece" steel ship in the United States was soon under construction. Later the shipyard employment was multiplied and additional lands were purchased by the company. When the war emergency came, this shipyard was ready for performance, as the record abundantly shows.

City of Terry

Certificate number 7 was issued to the city of Terry. After having voted \$15,000 in bonds to bring in a garment manufacturing operation, the voters of Terry were disappointed by the action of the management in calling off the deal and deciding upon a location in Texas.

City of Winona

Certificate number 8 was issued to the city of Winona and resulted in the establishment of the Winona Bedspread Company. This certification won its place in BAWI history by becoming the basis of the taxpayers' suit that tested the constitutionality of the Industrial Act. Such a suit was wanted by the friends and opponents of the act alike, and the narrow margin in the Winona voting, 262 to 113 on a \$35,000 issue of 4 per cent bonds, suggested the opportunity. W. S. Albritton, a railroad employee at Winona, was the plaintiff. He lost his case in the local chancery court, and an appeal was arranged.

This case was elaborately briefed and argued by both sides before the Mississippi Supreme Court. W. E. Morse of Jackson, Mississippi, appeared as attorney for Albritton. Forrest B. Jackson, W. T. Knox, H. H. Creekmore, Garner W. Green, and Louis M. Jiggitts, all of Jackson, appeared for the commission. Weaver E. Gore filed a brief, as *amicus curiae*, taking the view that the act was unconstitutional. These briefs are exhaustive and are significant today to the student of municipal ownership and of the debatable ground between "due process" and the general welfare. On April 4, 1938, the Mississippi Supreme Court declared the Industrial Act constitutional by a vote of five to one.¹⁶ The United States Supreme Court later found that no Federal question was involved, that the matter was exclusively for determination by the state.

The practical effect of this decision was to liberate the important Natchez deal (certificate number 10), which was under way, and to free the resale of previous bond issues that were in the original investors' hands. Lower interest rates on the subsequent bond issues were also made possible.

The tenant in the new Winona plant, the Winona Bedspread Company, was a Jackson, Mississippi, concern loosely affiliated with a group of cotton cloth and bedspread plants in Mississippi and Alabama towns. The operation in Winona made a halting start, owing, it is said, to the belief on the part of the first employees that the new employment had a public relief character. After initial production delays, and discharges and replacements of labor, the annual

¹⁶ *Albritton v. City of Winona*, 181 Miss. 75, 178 So. 799; App. dism. 58 Supreme Court 766, 303 U. S. 627.

pay roll stipulation of \$75,000 a year was satisfactorily met and continues so today.

City of Union

Certificate number 9, issued to the city of Union, resulted in an issue of \$35,000 in 6 per cent bonds, voted by the overwhelming majority of 293 to 9. The proceeds of the bond issue were used in constructing a factory building for a silk-throwing concern. The tenant enterprise started operations but failed to perform its contract and after a brief period closed down. This closure caused disappointment almost as great as the initial enthusiasm.

The community-owned building then stood idle for some 18 months. It was finally rented in November 1939 by the West Shirt Company (later the Lebanon Shirt Company), a Mississippi corporation with New York and Pennsylvania affiliations. The operation of this company has continued to the present time, with pay roll results several times the \$50,000 minimum stipulated in the first contract.

City of Natchez

Certificate number 10, issued to the city of Natchez, resulted in the largest of all bond issues under the BAWI—\$300,000 in 3½ per cent bonds of the city. Proceeds were used for the purchase of a 22-acre site and the construction of reinforced concrete buildings to house the Armstrong Tire and Rubber Company, Incorporated. This company is owned 50 per cent by Armstrong Rubber Company of West Haven, Connecticut, and 50 per cent by Sears, Roebuck and Company. It was established at Natchez under contract to manufacture tires for distribution by the latter concern, which was represented in the subsidy negotiations.

The Armstrong Tire and Rubber Company does not appear to have been in need of subsidization from any source, but as to Natchez' need of industrial employment, there could be no question. The decline in river traffic had seriously reduced the community's employment opportunities. The State Industrial Commission, while anxious to secure soundly financed enterprises for the state, raised questions about the certification. One question bore upon the remaining bonding capacity of Natchez, which already owed \$776,000 in bonds. The additional \$300,000 would virtually absorb the city's remaining margin

of bonding capacity. Again, the commission pointed out that the \$300,000 bond issue was to bring in a stipulated \$300,000 annual pay roll, or a ratio of one to one, whereas in all previous subsidy propositions the ratio of prospective pay roll to bond investments had been considerably higher. Natchez' need of employment, however, prevailed over these considerations.

The weakness of Natchez' bargaining position was apparent in the rental terms of the contract. Under the original contract, the company was to pay \$600 a year basic rent for the \$290,000 property¹⁷ for five years. At the end of that time, the property would be conveyed in fee simple to the company, providing the pay roll by that time amounted to \$1,000,000. If the pay roll had not reached \$1,000,000, the conveyance would be postponed until it had done so. Under this arrangement after five years the property would become private property and, hence, taxable.

At the end of 1938, when operations were beginning, this rental arrangement was amended. The amended contract provided for a 50-year lease, the rental for the first five years to be waived, and \$3,600 annually to be paid after this rent-free period. The company was given an option to purchase the property at cost less a stipulated annual straight-line depreciation at any time during the leasing period. Thus, the property pays no taxes to the city for 50 years, unless the option is exercised. Interest on the bonds, initially, was \$10,500 annually, and average annual amortization is \$12,000. This amount may be compared with the annual \$3,600 rental payment. The city also was obligated by the contract to provide pavement to the site, and it performed grading work. The cost of these services has been estimated as between \$35,000 and \$50,000.

The pay roll income has meant as much to Natchez as to any other community—perhaps more. With the simultaneous growth of the Armstrong plant and of a second factory in the area—indirectly the result of an earlier attempt at subsidization by the fund-collecting process—the community revived. So rapidly did the pay roll of the Armstrong operation expand that, had the original contract been unchanged, the company would have become owner of the site and building by mid-1941. At that time the rubber shortage became evident and numerical employment receded temporarily, but, as in the case of Grenada, a

¹⁷ \$10,000 was paid by Natchez as a location fee.

shell plant was added, and in 1943 the plant's pay roll was larger than ever before. From the beginning of 1939 up to June 30, 1943, the Armstrong plant disbursed in pay roll more than nine times the face of the bond issue. Since the ratio of pay roll to bond issue is the customary way of figuring the "return upon investment" in the subsidizing communities, it is apparent that Natchez is financially satisfied with the deal.¹⁸

However, the town authorities failed to act upon a request laid before them by company representatives that the city issue another \$150,000 in bonds in order to provide funds for the construction of a tire warehouse. The argument upon which the refusal was based was that a warehouse does not employ a large labor force and that, as figured on a ratio of bond issue to prospective pay roll, the investment would not pay. The company thereupon built the warehouse from its own resources.

City of Newton

Certificate number 11 was issued to the city of Newton. Voters of the city approved a \$50,000 issue of bonds in order to bring in a branch of a Michigan hosiery concern. Upon decision of the company not to establish a plant in the South, the bonds were cancelled.

Forrest County (Hattiesburg)

Certificate number 12 was issued to Forrest County for the purpose of bringing a manufacturing company to Hattiesburg, the county seat. Hattiesburg, third city in population in Mississippi, had had a silk-weaving mill that had discontinued operations. The presence of an experienced labor supply attracted the attention of one of the largest concerns in the silk industry, Julius Kayser and Company, Incorporated, with numerous subsidiaries and an integrated vertical operation extending from silk throwing to finished manufacturing and selling in retail outlets.

The subsidy was in the form of a factory building. Proceeds from a county bond issue of \$67,500 were used to take over and alter the vacant silk mill. The Hattiesburg Hosiery Mill, a Kayser subsidiary,

¹⁸ Some pay rolls of the BAWI plants have returned yet higher ratios. See table 6, page 57, and discussion, pages 57-58.

was thereupon incorporated in Mississippi, and it leased the building from the county.

Operations of the new mill started in January 1939 and expanded gradually. Normal production was maintained during 1940 and until about October 1941. Then the plant began to lose labor to near-by war industries and training classes. It also encountered silk and nylon shortages. In June 1943 the plant was closed by the parent concern. The workers generally found other employment and in October 1943 the plant was leased and reopened by a new tenant. It is now operated as a branch of the Reliance Garment Company, a shirt manufacturing concern.

City of Iuka

Certificate number 14 represented an anticlimax. After the voters of Iuka had approved an issue of \$8,000 in bonds to import a garment company located in adjoining Alabama, the company decided to stay where it was.

City of New Albany

Certificate number 15 put a second shirt factory, the I. B. S. Manufacturing Company, into New Albany, where the Irwin Manufacturing Company, Incorporated, was already located. Irwin B. Schwabe of New York is president of both concerns, which have identical officers though they are separately incorporated. Work shirts are manufactured on a contract basis and handled through Irwin B. Schwabe Company of New York City.

Operations began in 1940 in a new factory building financed by a bond issue of \$25,000. Employment has been at capacity and on a remarkably even keel since the beginning of 1941. The stipulated \$50,000 annual pay roll has been far exceeded. Community relations of the public-tenant corporation are not distinguishable from those of the older, purely private plant.

City of Crystal Springs

Certificate number 17 covered part of a somewhat complicated and protracted transaction involving the city of Crystal Springs. The transaction at various stages involved the acquisition of the city's municipal power plant by the Mississippi Power and Light Company, the erection of one structure to house a shirt factory by a Chamber of Commerce

fund of \$30,000, and the erection of an extension from the proceeds of a public bond issue of \$25,000. The operating concern is the Crystal Springs Shirt Company, a family partnership connected with the Bernstein and Son Shirt Corporation of New York. The contract provided that the company could acquire the public building in 10 years, if its total pay roll in that time amounted to \$500,000. This amount was reached in less than five years.

City of Biloxi and Harrison County

Certificates numbers 18 and 20 were granted to the city of Biloxi and to District 1 of Harrison County, in which Biloxi is located.¹⁹ These certificates were for a pottery-manufacturing operation to utilize local kaolin deposits and represented a departure from the previous policy, in that the proposed operation was a new promotion. Each authorization was for \$75,000, a total of \$150,000 for the new venture, but the proposition was dropped and, according to local opinion today, was unsound.

City of Ellisville

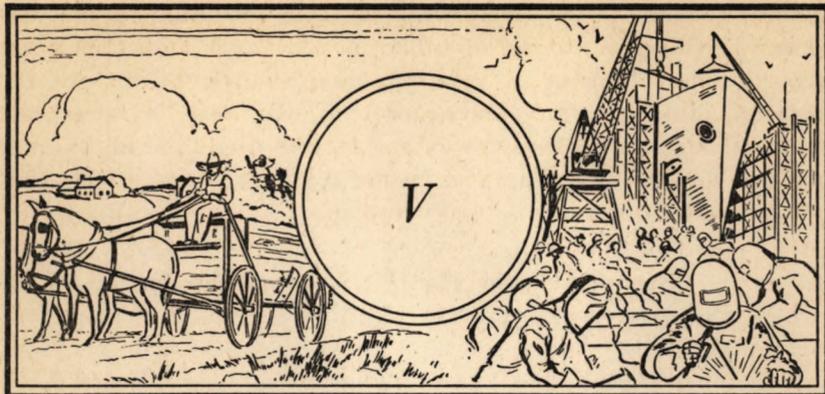
Certificate number 19 resulted in a bond issue of \$30,000. Proceeds were used to establish the Ellisville Hosiery Mills, Incorporated, in Ellisville. This plant was the smallest of the BAWI establishments and proved to be the last. It has operated with success.

Lee County

Certificate number 21, granted to two county districts in Lee County, northeastern Mississippi, was to have established a branch of the Blue Ridge Overall Company of Virginia near the town of Baldwyn. A \$40,000 bond issue was voted. Sale of the bonds was enjoined by taxpayers in the neighboring community of Guntown, and the deal fell through. This failure is still greatly regretted in Baldwyn today.

¹⁹ Certificate number 18 was the last certificate issued by the original State Industrial Commission before its resignation in January 1940 at the conclusion of the administration of Governor White. Several other deals were "on the fire" at this time, and three were certified by the successor commission, appointed by Governor Paul Johnson. Two resulted in the establishment of plants, one under the BAWI and one under other auspices.

The new commissioners were Joseph F. Dixon of Natchez, who succeeded Mr. Hoffman as chairman; M. P. Bush of Ellisville, who succeeded Mr. England; and J. G. Repsher of Meridian, who succeeded Mr. Klein.



End, Aftermath, and Summary of the BAWI

As April 1, 1940, approached, the impression was general in Mississippi that the Industrial Act of 1936 was due to expire automatically. The act, to be sure, provided only that the appointments of the commissioners, and any unused certifications, should become void on that date. But in Mississippi, where a Governor may not succeed himself, each new administration is expected to review the more experimental acts of its predecessor. The Industrial Act had been so written as to provide expressly for such a review.

The circumstances at this time favored the discontinuance of the BAWI for several reasons. Governor White, father of the plan, was no longer in office, having been succeeded by Governor Paul B. Johnson. Coincidentally, the BAWI appeared to have worked itself out of a job. The restlessness and southward drift of industry had subsided. War had come in Europe and the business trend in the United States was upward. Few applications had been received by the State Industrial Commission for some months past. Mississippi's unemployment emergency was less acute than formerly. Most communities that wanted to act under the BAWI plan, and had the bonding capacity to do so, had either got their new industries or had tried and failed.

Concern with problems of public revenue had put the BAWI under heavy fire. Its features of public subsidy, bonded debt, and tax exemption for industrial property were clearly related to the revenue problems. Moreover, no abundant showing of returns in numerical employment and in pay roll dollars could yet be cited in answer to the recurrent attacks upon the theory of the BAWI.

The fact was that up to April 1940 the visible returns from the BAWI plan had been actually meager. To conduct negotiations, approve bond issues, build new plants, and bring new factories into normal production were steps that required time. Up to the date mentioned, only seven new concerns had come into actual operation under the BAWI, and these had a total of only 2,691 employees. This number was less than 5 per cent of the total manufacturing employment of Mississippi. Thus, the plan appeared to have failed to produce the hoped-for and intended results. The future, of course, could not be foreseen.

Joseph F. Dixon, whom Governor Johnson had appointed chairman of the State Industrial Commission, favored the continuance of the public subsidy plan, but with a change in administrative policy. Mr. Dixon believed the BAWI system might be used to develop natural home industries, such as tomato canning, the higher forms of lumber processing, furniture making, and other processes adding value to Mississippi's raw products. He discussed this idea with Governor Johnson. The verdict, however, was negative, as it had previously been on the part of the former State Industrial Commission on the same point.

In April 1940, the Mississippi Legislature with virtually no opposition adopted, and the Governor signed, an act consolidating the State Planning Board, the State Advertising Commission, and the State Industrial Commission into the new Mississippi Board of Development and repealing the Industrial Act of 1936. This act became effective June 30, 1940. Thus ended the legal existence of the BAWI. Two matters of unfinished business were affected by the repeal. Taxpayers enjoined the sale of the \$40,000 bond issue that was to have brought in a garment plant at Baldwyn. On the other hand, a manufacturing development in Meridian, the negotiations for which had been started under the BAWI, became established after the Industrial Act had expired.

Aftermath of the BAWI

Three years from the date of the repeal of the Industrial Act, the numerical employment in the BAWI plants had multiplied by approximately four times and the wage disbursements by nearly nine times. This rate of expansion far exceeded that of the previously established manufacturing in the state.

The BAWI plan could not be regarded as the cause of the expansion, without strong qualifications.²⁰ The business cycle and the war demands were the dominating influences. The shipyard became larger than all the rest of the plants combined. The experience of three of the concerns ran somewhat counter to the general trend.²¹

During the eight months of 1940 after the repeal of the Industrial Act, the Winona Bedspread Company at Winona and the I. B. S. Manufacturing Company at New Albany came into operation. The Ingalls Shipbuilding Corporation was still a relatively small employer. The Jackson County Mills, Crystal Springs Shirt Corporation, Grenada Industries, Incorporated, Armstrong Tire and Rubber Company at Natchez, and Hattiesburg Hosiery Company were at or near their normal peaks. The Real Silk Hosiery Mill at Durant was reorganizing, and its employment had temporarily dropped; the West Shirt Company at Union was just getting started. At the end of 1940, 10 BAWI plants were in operation, having 7 per cent of the total numerical employment, and 8 per cent of the total pay roll, within Mississippi's total of manufacturing.²²

In 1941, the Ellisville building, which had been standing idle, secured a new tenant, and the Pascagoula plywood plant commenced operations. Thus, all the BAWI plants were now going concerns, and in 10 of them 1941 was a year of steady expansion. The shipyard more than doubled its employment during the year. But the hosiery mill at Hattiesburg had reached maximum employment. The rubber and tire plant at Natchez was already feeling the shortage of rubber brought about by the military demands, and in the latter months of 1941 employment in the plant declined. For Mississippi as a whole, the

²⁰ See discussion, pages 34-37.

²¹ How each plant, in relation to its size, affected the total growth of the BAWI group has previously been indicated in the index figures of table 2. See table 2, page 32, and discussion, page 31.

²² The basic figures, by quarters, are shown in tables 4 and 5. See table 4, page 55, and table 5, page 56.

total employment in manufacturing increased during 1941 by 27 per cent and the total manufacturing wages by 56 per cent. At the end of the year the BAWI group of plants had increased its percentage share to 9 per cent of the total employment and to 14 per cent of the total manufacturing pay roll of the state.

During 1942, several of the BAWI plants turned to war production. Mississippi's major industry, that of lumber production and processing, was under heavy war demands but was having difficulty in keeping its workers. The total increase in manufacturing employment for the state in 1942 was 16 per cent above 1941, and in manufacturing wages, was 38 per cent above 1941. But the BAWI plants during 1942 nearly doubled their number of workers and more than doubled their payment of wages. These 12 plants for 1942 alone contributed 42 per cent of the state's total gain in manufacturing employment and 47 per cent of the state's total gain in manufacturing wages. Most of this gain was due to the shipyard expansion—the shipyard again doubled its employment, for the second successive year—but other plants also contributed in proportion. Exceptions were the Hattiesburg and Durant hosiery mills and the Crystal Springs shirt factory, which lacked raw materials and labor and sustained slight declines. The Natchez tire factory remained below its 1941 levels during most of the year. As 1942 ended, the 12 BAWI plants had 14 per cent of the employment and 23 per cent of the pay rolls in the rising total of Mississippi's manufacturing.

During 1943 the BAWI plants as a group continued to prosper. They had generally attained their war peaks by April and continued thereon, with minor changes due primarily to labor shortage. The shipyard was performing at near capacity in spite of excessive labor turnover. The Natchez tire factory and the Grenada silk plant were manufacturing shells and were expanding their facilities. Other plants also had war orders. But there were negative developments as well. The Hattiesburg Hosiery Company shut down in June because of combined labor losses and silk shortage. At almost the same time, the Pascagoula branch of the W. G. Avery Body Company was consolidated with the parent plywood concern at Jackson, Mississippi.

During the first half of 1943, the lumber industry lost further labor and the state total of manufacturing employment declined somewhat. But the BAWI total on June 30, while slightly below that of April, still was above that of the previous December. Thus at midyear

TABLE 4

NUMBER OF WORKERS, AVERAGED BY QUARTERLY PERIODS, IN 12
MANUFACTURING ESTABLISHMENTS FOUNDED IN MISSISSIPPI
UNDER THE BAWI ^a

<i>Year</i>	<i>First Quarter</i>	<i>Second Quarter</i>	<i>Third Quarter</i>	<i>Fourth Quarter</i>	<i>Average for Year ^b</i>
1939	1,078	1,348	1,951	2,154	1,633
1940	2,569	3,023	3,347	3,728	3,167
1941	4,359	4,952	5,823	6,533	5,417
1942	6,740	8,392	10,199	11,728	9,265
1943	12,818	12,898	-----	-----	-----

^a Source: Mississippi Bureau of Unemployment Compensation.

^b Average of 12 monthly periods.

of 1943 the BAWI group accounted for 14 per cent of the employment and 24 per cent of the pay roll of all manufacturing in Mississippi. In July, the Pascagoula plywood plant obtained a new tenant, and, in October, the Hattiesburg plant did likewise. The other operations continued generally at capacity.

Summary of the BAWI

Mississippi's official attempt to balance agriculture with industry resulted in the establishment of 12 manufacturing plants that were new to the state. They included 4 hosiery plants, 3 shirt factories, a chenille concern, a woolen-goods mill, a plywood plant, a rubber and tire plant, and a shipyard. None had left its former location; all were the branches or affiliates of central or parent concerns that used the BAWI subsidy plan as an aid to their decentralized expansions.

Employment figures for these 12 concerns are shown in table 4 by quarterly periods from the beginning of 1939 to midyear of 1943. The growth in employment was remarkably consistent, as well as rapid, though it is to be recognized that the largest plant, namely, the shipyard, dominates the totals.

The wage disbursements of the 12 BAWI plants are set forth in table 5.

The grand total of wages in table 5, for the period of four and one-

TABLE 5

WAGE PAYMENTS BY QUARTERLY PERIODS IN 12 MANUFACTURING ESTABLISHMENTS FOUNDED IN MISSISSIPPI UNDER THE BAWI ^a

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total for Year
1939	\$ 200,828	\$ 272,790	\$ 404,542	\$ 529,414	\$ 1,407,574
1940	609,952	764,819	896,826	1,043,048	3,314,645
1941	1,201,666	1,572,602	2,082,547	2,693,414	7,550,229
1942	2,752,115	3,689,388	5,271,056	6,181,827	17,894,386
1943	6,396,435	6,976,092	-----	-----	13,372,527 ^b

^a Source: Mississippi Bureau of Unemployment Compensation.

^b Six months only.

half years, is \$43,539,361. This sum, in the customary parlance, is termed the pay roll that Mississippi "bought" or in which, under the public subsidy plan, the taxpayers of the state "invested." The "investment" was the sale of a total of \$980,500 in public bonds, plus the operating cost of the State Industrial Commission (which was \$77,250), the unknown cost of additional municipal aids and services, and a varying amount of bond interest. Figured in these terms, as is common in subsidy deals, the ratio of "returns" to total "investment" in four and one-half years' time was approximately 36 to 1.

But this popular way of calculating the results of a subsidy deal is open to grave objections. It involves the sweeping assumption that the subsidy actually was an investment—that it actually "brought in" the industries as a purchase payment brings a return in goods. But a subsidy is an inducement, not an investment, and the causative effect of that inducement can never, in the nature of things, be satisfactorily proved. Though neither the grantor nor the recipient of subsidy will ordinarily admit it, the establishment might have been made without subsidy, in which case the ratio of "returns" would be infinity.

Another common way of figuring the results of subsidy is to divide the total amount of the subsidy by the number of jobs in the new enterprise, the result being the "average cost of a job." This method has the same fallacy as the first, in that it assumes causation; but, further, the result of this method varies according to the employment status of an industry at a given time. For example, if calculated for the BAWI plants as of their 1939 average employment, the "cost of

TABLE 6

COMPARISON OF WAGE DISBURSEMENTS AND SUBSIDY BOND ISSUES
FOR 12 MANUFACTURING ENTERPRISES ESTABLISHED IN
MISSISSIPPI UNDER THE BAWI

<i>Name of Establishment</i>	<i>Total Wage Disbursements^a</i>	<i>Amount of Bonds</i>	<i>Ratio of Wages to Bonds^b</i>
Ingalls Shipbuilding Corp.	\$32,941,661	\$100,000	73.2 to 1
W. G. Avery Body Co.	306,428	10,000 ^c	15.3 to 1 ^d
Crystal Springs Shirt Corp.	973,704	25,000	8.7 to 1
I. B. S. Manufacturing Co.	552,820	25,000	7.4 to 1 ^e
Lebanon Shirt Co.	795,602	35,000	6.5 to 1 ^f
Real Silk Hosiery Co.	523,250	25,000	4.7 to 1
Grenada Industries, Inc.	1,780,600	103,000 ^g	3.9 to 1
Ellisville Hosiery Mills, Inc.	176,470	30,000	2.9 to 1 ^d
Winona Bedspread Co.	254,814	35,000	2.1 to 1 ^f
Armstrong Tire & Rubber Co.	2,773,607	300,000	2.1 to 1
Jackson County Mills, Inc.	2,017,807	225,000	2.0 to 1
Hattiesburg Hosiery Co.	442,598	67,500	1.5 to 1
TOTAL	\$43,539,361	\$980,500	9.8 to 1
TOTAL WITHOUT SHIPYARD	\$10,597,770	\$880,500	2.9 to 1

^a Source: Mississippi Bureau of Unemployment Compensation.

^b On basis of annual average pay roll for the period, January 1, 1939, to June 30, 1943, unless otherwise noted.

^c Direct appropriation.

^d July 1, 1941, to June 30, 1943.

^e July 1, 1940, to June 30, 1943.

^f January 1, 1940, to June 30, 1943.

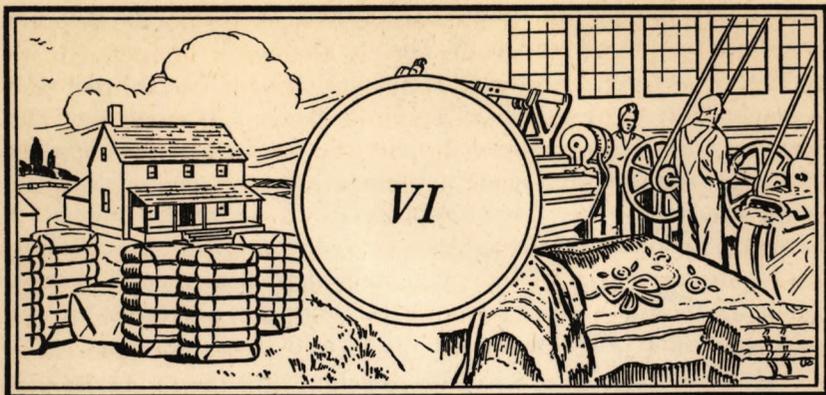
^g Four bond issues.

a job" is approximately \$600, whereas if calculated for the identical plants as of 1943, the "cost of a job" is about \$90. Nothing can be made of such a method of figuring, which is here mentioned only because it is prevailingly used in promotional circles in justifying subsidy by its so-called "results."

The ratios between the annual average wage disbursements and the amount of bonds issued for each BAWI plant are shown in table 6, but for a reason very different from the usual "return upon investment" calculation. In the table, the establishments are arranged in

descending order of ratios; this arrangement suggests what might prove to be, upon the basis of broader data, a significant limitation upon community subsidization itself. The more highly mechanized and technically advanced operations are in the lower half of the list. The shirt factories are well toward the top, and the shipyard, which is a very heavy user of hand labor in proportion to capital equipment, is at the top.

While the 12 plants alone do not constitute a sufficient exhibit, there are reasons for believing that the sample may run true for the practice of community subsidization in general. Local subsidies are "purchases of pay roll," not of plant. Therefore, the labor-using industries are likely to make better showings than the industries that emphasize capital and that are, on the whole, of the higher technological types. As far as the BAWI plants are concerned, the subsidization of the more heavily capitalized and elaborate types of industry was more costly and did not "pay" in pay roll "returns" as well as that of the more rudimentary operations; and if this holds good in the general field, then there is an economic explanation for the order of enterprises with which community subsidization, prevailingly, has dotted the South.



Some Concluding Comments on the BAWI Plan

The South has long discussed certain major issues connected with the comparatively low level of industrial activity in the region. Should a higher degree of industrialization be a regional goal? If so, what are the preferable types of industry? Should the region endeavor to bring in branch plants of successful national concerns, or should it chiefly attempt the establishment of new concerns, locally owned, and new industries characteristic of the area? Should subsidization be used to encourage the establishment of enterprises, or can the normal forces of interregional competition be relied upon to industrialize the South? To such issues, briefly indicated by the foregoing questions, Mississippi added another: If subsidies are to be used, should they be purely private and local, or should state authority and public financing be factors in the organization of the subsidy program?

The BAWI experiment yielded a background of experience related to these questions, but the most generous review of its history cannot say that it settled any of them. On all such issues, there remain today, even in Mississippi, very grave and entirely justifiable differences of opinion. These differences were expressed in the many interviews made for the purposes of this study, and they are worth noting specifically because attempts to attract industries by means of subsidies of

various descriptions are quite characteristic of the South and are almost certain to reappear in the postwar period.

The BAWI demonstrated the great value of industrial pay rolls to communities previously lacking in wage income. Yet some hold the view that if the energy expended under the BAWI had been applied to the diversification and modernization of the state's agriculture, the results would have been more appropriate to the basic economy of the area. The industrial and agrarian attitudes, however, are not necessarily contradictory; they find a common ground in the general opinion that more industries arising from agriculture are a necessity of the Southern economy—a view that may be termed almost universal.

The BAWI procedure for selection and investigation is, in general, strongly approved today by Mississippians who are for other reasons either adherents or opponents of the plan. The selective and investigative procedure, indeed, may well be regarded as the system's greatest innovation and foremost contribution to the planning and development of industrial expansion. However, the question of industrial types—that is, choosing among the many varieties of manufacturing production and between locally owned indigenous industry or the branch-plant kind—is an exceedingly complex problem. Probably for the reason that there is no clear-cut arbitrary solution, this question is one on which there are severe differences of view, even among those who are perfectly agreed that industrialization is desirable. The BAWI can be said only to have propounded this problem anew, not to have solved it.

Much the same can be said regarding the whole problem of whether subsidies of any sort are proper in the attempt to stimulate an industrial expansion. Many differences of opinion exist in Mississippi as elsewhere. These differences, so far as Mississippi is concerned, are based upon experience with community subsidization in three forms: the uncontrolled Columbia plan, the state-controlled BAWI system, and a few cases in which WPA training classes became a starting point for private activities.

The controlled BAWI plan is usually considered to have worked the best; but there are many who dislike and disapprove of the entire practice. In some cases, the larger aspects of community subsidization were recognized. In behalf of the practice, some argued that a greater decentralization of industrial activity was nationally desirable, and that if the efforts of individual communities could help to reduce the

national concentrations and fill up the points of industrial vacuum, then the subsidies were an influence in the right direction. On the other hand, there was a considerable tendency to question whether the more "worthwhile" types of industry were responsive to the subsidy inducements.²³

On the use of the public bonding power as a means of creating subsidy funds, the full round of differences of opinion was found. This was both a most distinctive and also a most controversial feature of the BAWI.²⁴

Opinions on this issue, to some extent, also varied by localities. In communities where the BAWI system had operated, the emphasis tended to be upon favorable aspects of the plan. One point of emphasis was that the BAWI raised larger sums than could have been raised by the private-collection method. Another point made was that the sale of municipal and county bonds caused investment capital to flow into industrial development at a time when capital was badly frozen. It was said, too, that the plan distributed the burden of subsidies fairly over all the taxpayers and that the bond elections, characteristic of the plan, polled the voters affected as to whether or not they wanted new industry. Still another point of emphasis was that the BAWI system was more above-board than the old Chamber of Commerce plan.

In other communities, but almost wholly in the nonparticipating communities, the emphasis was upon the unfavorable aspects of the plan. One criticism was that the credit of the municipalities suffered.

²³ Typical expressions on this point were: If an enterprise will move once, it can move again. A good, strong enterprise needs no subsidy.

²⁴ Some typical opinions follow:

A banker: The thing was outright Socialism and should never have been attempted, much less held constitutional.

Another banker: The BAWI plan was socialistic in its tendency, but it worked.

A third banker: I'm so much concerned about real forms of Socialism that I can't worry much about that municipally owned but privately operated factory down the street.

A businessman and civic leader: Municipal ownership of a necessary facility, and Socialism, are two very different things.

A Chamber of Commerce leader: The people of this town have a right to work through their local government as well as through this Chamber of Commerce.

A town mayor: I am chairman of a municipal corporation and if this corporation wants to lease a building to another corporation, I don't see that any high-sounding principle whatever is involved.

A factory manager in a BAWI building: This is a purely private enterprise, and don't forget it.

A second criticism was that the burden was shifted from the group that would directly benefit to the shoulders of all the taxpayers. Another criticism was that voter sentiment in some towns was stampeded and that some communities were so "up against it" for employment at the time that they would have tried anything.

Even the legal aspect remains a subject of disagreement. The Industrial Act was held constitutional, but some attorneys were not convinced by the majority decision. Other attorneys, however, expressed the view that the essentiality of a given public facility to the welfare of a given area is a question of fact for the court to decide in each case, rather than a question of law, and that essentiality in fact may vary from time to time and place to place. In view of increasing tendencies toward the legal recognition of income from employment as a social necessity and Supreme Court recognition of the right of a state to define the terms of its own general welfare, some believe that a local government might issue bonds for well-proved public welfare purposes under a simple state enabling act, without the apparatus of certification that was found necessary in Mississippi in 1936.

Differences of opinion such as these and case material such as the Mississippi experiment provided are primary to the problem of a stimulated industrial expansion. There are, in contrast, four aspects of the BAWI experiment that partake so little of controversy that they may be presented as tentative conclusions.

1) *Mississippi made a plan and put energy into carrying it out.* The plan may not have been perfect, and indeed it is not regarded as perfect by its former participants today. They rightly view the BAWI as having been a valiant attempt on the part of an impoverished area to "lift itself by its own bootstraps." They say that when an emergency arose they tried to use all available weapons to cope with that emergency.

It is emphatically true that Mississippi tried and tried hard. A definite program was conceived, and dynamically pressed with considerable results. Having unemployment, Mississippi set out to create employment. Finding the law a barrier to action, it changed the law. Having little private capital, it used the public credit. Lacking established industries, it induced established industries to come in. Having an untrained labor supply, it trained the workers. Finding the old plan of community subsidization faulty, it revised that plan. The effort

was conceived, not necessarily perfectly, but always clearly; and it was pressed with energy at every step.

The need for energy in carrying out a plan seems obvious. It is worth noting, however, because the South has for a long time been full of various plans for expanding its industry and numerous such plans are even now afoot. So many industrial promotion schemes have failed in the past, no matter how well or badly they were conceived, simply because sufficient energy was not expended in carrying them out.

2) *The BAWI plan was directly operated by outstanding men.* Neither the planning nor the execution of the plan was left to inferior abilities. Both on the state and community levels, able men left their affairs or emerged from retirement to conceive the BAWI, draft the legislation, and supply the personnel. These leaders did not lend their names in any "showcase" capacity; they did the actual work. Even those who opposed the BAWI or were unenthusiastic about it stressed the fact that while they considered the idea of the BAWI as dubious, the situation was made good by a set of leading men in whom all had confidence.

This point is worth noting because the procedure of the BAWI in this regard has not always been characteristic of the processes of government. No blueprint is any better in practice than the hands to which it is entrusted for execution. Able leadership in a participating capacity is an essential requirement of successful action.

3) *The BAWI, as practiced in Mississippi, demonstrated the superior results of a two-level approach to developmental problems.* Local energy and community self-interest were combined, in the BAWI setup, with the more neutral judgment and greater fact-finding ability of a central state agency. This vertical arrangement was an important invention, apart from all questions as to how it was applied. The prevailing setup in this region consists of a state planning board or developmental body, with a vague mandate to develop the area, and a multiplicity of detached and unrelated local agencies, all working in virtual isolation and with little unity of policy or purpose. Precisely this situation, in Mississippi, threatened economic chaos under pressure of emergency and showed the need of some centralizing structure.

The two-level idea has lately reappeared in Louisiana, where there is an active movement in county resource analysis with state technical aid. Approaching problems appear almost certain to require some such structural provision for unified approach. Disemployment, prospec-

tively the central problem, will probably present itself as a series of community emergencies. Each town or small city may have its quota of war workers returning from shipyard centers, or men demobilized from the armed forces. Simultaneously, the one or two small or medium-sized factories supporting the typical small town may be in the throes of postwar conversion.

Federal assistance for the larger plants seems probable regardless of their ability to solve their conversion problems from their own resources. But in the workings of any general system of assistance the smaller units quite commonly are omitted or do not fit the requirements. Thus, the basis of income in community after community may be in jeopardy because the factory that is its main support must convert from war work to peacetime production of doubtful prospects.

Community emergencies may be expected to breed community subsidization efforts in the postwar period. Local aid to local industries is a remembered pattern in the South, used almost habitually in emergencies and, indeed, in the ordinary course of promotional activity. Mississippi found, as some other Southern areas have found, that a multiplicity of unregulated subsidy attempts was creating considerable disturbance and threatening to change the economic structure in undesirable directions. Community interest, moreover, may easily run counter to economic wisdom. The answer of Mississippi amounted to the organization of the effort, with a state commission as the top planning authority.

The Mississippi Industrial Commission had direct and mandatory powers. Whether such powers were necessary may be open to question. A state agency, empowered only to investigate the local development proposals and to render public reports, might have had virtually the same effectiveness. However, some Mississippi leaders believe that the success of the suasion method of the BAWI rested upon the fact that the State Industrial Commission had "a club in the corner." The point is debatable. But the need of central authority with influence over localities seems likely to present itself with some emphasis in developmental problems of the future.

4) *The BAWI did not bring into being any new enterprises of the independent or indigenous types.* Its failure to do so is the final challenge to developmental work. The independent enterprise is generally representative of the economy of individualism that is favored in the South. A higher utilization of Southern raw and semiprocessed

production is obviously the real key to a balanced economy and a higher regional income.

What were the reasons for the failure of the BAWI to develop new industries? First, capital for investment purposes was lacking. Second, managerial ability and labor skills and experience were also lacking. And, third, the period of deep depression had suspended the fundamental economic act of risking capital funds and had paralyzed the venture spirit in enterprise.

These limiting conditions do not confront the Southeastern region as detrimentally today as in the prewar years. Regional funds are probably sufficient to finance a considerable amount of new local industry, if soundly applied. Labor skills and experience have very greatly increased, and there is a better supply of capable management and submanagement. Surveys of industrial resources and of regional consumer needs are being actively made, so that industrial venturing may have a factual basis upon which to proceed. Whether the entrepreneurial spirit itself will revive, and whether the business environment of the coming period will favor its revival, only the future can determine.