

"BUSINESS EXPANSION AND THE MOBILIZATION PROGRAM"

ADDRESS OF

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To the

RECORDER-CONTROLLER SECTION OF THE

· SCIENTIFIC APPARATUS MAKERS ASSOCIATION

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MR. CHAIRMAN AND MEMBERS OF THE ASSOCIATION,

When I was invited to this meeting I made some inquiry about the business activities of your group. I found that the 22 members of this Section produce approximately 70 per cent of the country's total domestic requirements of process control instruments and an equal percentage of the amount we export. Much of the responsibility for keeping American's industrial machine at its present level of operation, and maintaining our world leadership in the production of goods, is yours. In a very real sense, you are part of the front line troops in our battle for industrial supremacy.

Today this industrial supremacy takes on new meaning. An imperialistic and militant Soviet Russia has compelled us to mobilize for defense. And, as you well know, mobilizing for modern warfare is very largely a job for industry. As businessmen and manufacturers you are undoubtedly interested especially in the industrial expansion phase of our current preparedness program. But it is impossible to discuss this aspect of mobilization without first placing it in its proper setting in the overall program.

In my view, there are three major objectives which our mobilization program must meet. The first and most important is building our military strength immediately to the level which will deter Soviet Russia from launching an aggressive attack. The second is expanding our industrial plant and thereby maintaining, or if possible, widening our lead in machine power over Russia and the countries which it can dominate. Finally, we must assure a continuously adequate supply of strategic and critical raw materials for essential current and wartime production. Everything else, I believe, must play a secondary role.

But while its role is secondary the concurrent job of endeavoring to maintain a healthy civilian economy, to whatever extent possible, is nevertheless important. It thus becomes apparent that the most important mobilization problem we have to deal with is to maintain a proper balance as between the several competing demands upon our existing industrial capacity. Although our power to produce is indeed great, it cannot meet all of the enormous demands of mobilization and at the same time maintain a high level of production of civilian goods.

There is increasing evidence that the objectives of the mobilization program as I have outlined them are not being met in the right order or with the proper balance. The brute fact is that deliveries of defense hardware -- the planes, tanks and guns -- are falling dangerously behind schedule. Obviously, therefore, some of our present mobilization planning must be unsound. That planning, I believe, fails to appraise accurately the supreme importance of our first mobilization objective; namely, the production of munitions now -- not next year, but today. The current program seems to be premised on the assumption that all we have to do now is build the factories which in turn will build

the munitions next month or next year. This planning assumes we will have a relatively long period of time in which to build up our military forces. But do we have that time? Of course, nobody knows, which is just the point. Since we do not know and cannot know when war will come, by what right can we assume that it will be later rather than earlier? By what right do we gamble with the safety of the country?

If we are to avoid this gamble, presently planned military strengths must be attained promptly. To accomplish this it is becoming increasingly apparent that armaments must be made the preferred claimant on existing production facilities and raw materials.

The one-shift, one-line production of desperately needed munitions in one or two pilot type plants is proving an insufficient effort. If we are to rearm in time we must now devote a greater portion of our materials, plants, and manpower to munitions -- and a correspondingly lesser portion to non-essential civilian goods.

We must also recognize that industrial expansion, the broadening of our industrial base on which to bottom our efforts to win an all-out war if it comes, is also an objective far more urgent than that of maintaining a high level of production of non-essential civilian goods. And the stockpiling of critical and strategic raw materials is only slightly less urgent.

In the face of grave threats to the peace of the world we have been figuratively burying our heads in the sand like the proverbial ostrich. And if we persist in this unwarranted optimism, the buried head may well be severed by one deft stroke of the Soviet sickle.

The facts we must face are hard ones. The only safe place today in which to make substantial temporary cutbacks is in the production of non-essential civilian goods. More materials and plants must be allocated to the immediate build-up of armaments. We dare not stop stockpiling, and we must devote a significant portion of present resources to the expansion of our industrial plant.

I firmly believe that now is the time for business expansion. Obviously, in the face of existing shortages, industrial expansion will for some time have to be limited to essential categories. But despite current materials shortages, the need for rapid stockpiling, the unavoidable harassment of government controls and the difficulty in making a reliable forecast of future needs, American industry must increase its machine power. Otherwise we may not be able to meet successfully the challenge that, even now, our enemies are previewing in Korea.

While our immediate military build-up is of prime importance, our industrial expansion is of only slightly less urgency. When and if total war comes we will have to turn out enormously increased quantities of munitions.

Ths statistics of our machine superiority over the Soviet Union are undoubtedly familiar to you. We outproduce and outbuild them in almost every category of industrial equipment. We have more than 5 times their steel production, 7 times their oil production, and 4 times their power production. Even if the industrial potential of their satellites is added we would still enjoy a marked, though lesser, advantage in machine power.

But these figures tell only a part of the story. Russia has made tremendous strides since the end of World War II, both in the building of productive capacity and in the more intensive use of capacity. What is even more important, they never demobilized. Since the end of World War II the primary thrust of their whole economy has been preparedness for World War III. Thus while we may have 5 times their steel capacity they undoubtedly have devoted more tons of steel to their armaments than we have to ours.

For our part, we can presently count on some assistance from the machines and the people of Western Europe. But any realistic appraisal of the threat to our security must recognize the possibility that Russia's 175 divisions could easily overwhelm the weak defenses of Western Europe in short order. Even after the North Atlantic Pact has been fully implemented there may be less than 50 divisions, with tremendous logistical problems, to oppose the Red Army in Europe. With the workshop of Western Europe in Russian hands it would then have superiority in machine power as well as in manpower.

Here lies the principal reason for the necessity of expanding our industrial machine now; and as fast as possible.

What then do we have to look forward to? We face a period of tension that may last many years. If during that period war comes, it will erupt without warning. We must be prepared for that eventuality at any time. There may be no war, but to act on that assumption would be the surest way to provoke it.

The cruel dilemma is that in addition to the urgent need for armaments, industrial expansion and stockpiling, we must also recognize the importance of maintaining a healthy civilian economy. Obviously some substantial portion of our industrial plant must be devoted to civilian goods, so that our standard of living is not reduced to the point where either efficiency or morale is endangered.

Wars place a great strain upon the population, standards of living are reduced and even basic essentials tend to disappear. We must not make the mistake of entering a war period with a shortage of essential civilian goods if we can avoid it.

But one thing is sure. The production of military hardgoods must be sufficient to give us protection now. No matter how the production cake is divided, those armaments must be more than just the frosting.

The long-term solution can only lie in greater production, first of raw materials, and then of finished goods. The greatest industrial establishment on earth will be of little avail if we do not have the raw materials to supply it.

We have been using up our natural resources at a tremendous rate. Our gigantic industrial machine demands enormous quantities of raw materials to feed it, and as that machine grows it will require more and more. Our own supplies have already proved insufficient and we have become heavily dependent upon foreign imports.

It is about time we stopped thinking of ourselves as a "have" nation and started thinking of ourselves as we really are -- a "have not" nation. This is exactly our position with respect to many strategic materials.

There are 93 such materials on our stockpile list. All are in short supply; all indispensable in time of war; and almost all must be imported. That does not mean we do not produce substantial quantities of some of them. But it does mean that imports mean the difference between our being a really great industrial power and a second class power.

We produced 900,000 tons of copper in 1950, approximately one-third of the total world production. Yet we had to import another 500,000 tons to fill our domestic needs. Whereas in the 1935-39 period we produced 107 per cent of our domestic requirements of this metal, in 1951, it is estimated that we will produce only about 65 per cent of our domestic requirements. And the trend in copper, as in almost all the other basic metals, is toward greater dependence on imports. In time of war, of course, this kind of problem would be greatly magnified.

Other strategic materials, like nickel, chromite, tin, crushing bort, quartz, and natural rubber come exclusively from abroad. We must import literally every ton, every pound, yes, every ounce we consume. In short, there is a host of things we need, in peace and in war, which can only come from abroad, and the larger we build our industrial machine the more we intensify our demands for foreign materials.

This means that, unless foreign sources are developed and expanded -- indeed new sources prospected -- prices are bound to rise if they are not controlled. This country has shown itself willing to apply controls to prevent unconscionable profits and runaway prices at home. But if our efforts are to be really effective I believe there must be a rational system of international controls on raw materials to protect us from producers abroad. I have talked with some of these foreign producers and I can say to you that to many of them democracy and freedom begin and end with a dollar sign.

Without adequate controls on raw materials it will be impossible to maintain ceiling prices on the goods manufactured from them.

The bitter irony of our situation is the fact that while most of these materials are produced by nations now free but who cannot hope to remain free without us, we have been soaked unmercifully for the materials we need, not just to defend ourselves, but also to defend them.

I have three suggestions to make in connection with our raw material problems.

First, all strategic and critical materials produced by the free nations should be allocated between them by an international body established for this purpose. Some preliminary steps have already been taken in this direction. Early in February the United States, England and France issued invitations to a number of other governments to meet in Washington in an International Materials Conference to consider ways and means to bring about increased production and availability of various materials in short supply. Meetings were held and three materials -- sulphur, tungsten and molybdenum -- have already been allocated.

Now just by chance it happens that two of these materials, sulphur and molybdenum, are the only minerals of which we have an export surplus. Thus, they represent almost all our chips in this international raw materials poker game. Sulphur is the principal ingredient in sulphuric acid, a basic industrial and munitions material. It is needed for everything from steel to fertilizer. It is used in the manufacture of synthetic rubber, newsprint and rayon. Its importance to foreign governments was illustrated in March when J. Harold Wilson, then President of the British Board of Trade, told the House of Commons that the shortage of sulphur was so acute that it was about to cripple British industry. Britain gets about 90 per cent of its supplies from us. Indeed, sixty per cent of the world production is concentrated in the United States, largely in Texas and Louisiana.

Similarly, the United States produces almost the entire world supply of molybdenum, an indispensable element in certain alloys and the only known substitute for tungsten. The British and others also want molybdenum.

The allocation of these raw materials places us in the position of having little left to trade with. I believe this to have been a most serious mistake. We have been gouged unmercifully on rubber and tin by the British. I would never have allocated a ton of sulphur or a pound of molybdenum without assuring at the same time our necessary supplies of rubber and tin. A benevolent foreign policy may pay off in heaven but in the raw materials sweepstakes some tough commercial language would have been both better understood and more productive of results.

My second suggestion follows from the first. Realistically allocating raw materials is a first step but it is not enough. We should also establish a limited system of world price control over these materials.

I am not interested in depriving any producers of a penny of legitimate profit. But I see no reason for paying extortionate prices to countries beyond the reach of our taxing power whose defense is dependent upon our receipt of the very raw materials they produce.

Finally, I suggest that, in cooperation with the rest of the free nations of the world, we make every effort substantially to increase raw material production. This will require expanding present capacities, as well as developing additional sources.

It is not enough just to ride along, hoping that normal exploratory efforts will provide us with a way out of our difficulties. We must embark upon a definite program of assistance to venture capital. We must encourage further extraction of marginal deposits by more economical methods. We must learn how to use substitute materials. We must foster international agreements which will create a climate abroad permitting the export of American know-how and capital in the further development of foreign resources. When American money, machinery, and methods are applied to undeveloped or partially developed world resources, the increase in output will be for the common good of the free world.

Recently, I read of a discovery by the Freeport Sulphur Company of a new sulphur dome in a Louisiana swamp. It is estimated that, by 1953, this deposit will be producing a very substantial tonnage annually. Sulphur, at present, is in such short supply that, although its domestic price is frozen at \$22 per ton, it sells abroad for up to \$120 per ton. The new discovery, while I understand that it has been exaggerated in the public press, should nevertheless help in some measure to solve the world shortage.

But wildcat discoveries of large quantities of minerals are only rarely made. More often they come only from a patient and scientific exploration program--the product of venture capital and know-how. These ingredients the United States can furnish as no other country can. With American help the unexplored territory of foreign countries may produce other finds as invaluable as the iron ore deposits being developed in Venezuela and Labrador; or the fabulous discovery in the Belgian Congo on the river with a jungle-drum name of Lualaba. Within one year it is estimated that development of this area will be yielding 250,000 tons of refined copper, 7,000 tons of cobalt and large amounts of zinc, tin, manganese, uranium, radium, gold, palm oil, and silver.

For this type of venture we must have a favorable climate for our capital. It is only in this way that the material shortages which retard industrial expansion and output and jeopardize the security of the free world will be overcome.

I am convinced that a complete implementation of this three fold raw material program, with the full cooperation of all participants, will give us the additional output we need.

With raw materials still short some of you may question the advisability of expanding now. Further, costs are high, and the future is shrouded in an opaque veil. But, apart from its mobilization necessity, I believe that now is a highly desirable time to develop additional industrial capacity. Obviously, no one can be expected to build during a depression. Then there is excess capacity.

Nor can we expect to be able to expand appreciably during a war. Then every economic muscle must be strained to meet the insatiable demands for munitions. To the extent there is a diversion of materials from munitions the war effort is endangered, or at best, prolonged.

Accepting our urgent need for industrial expansion now, how is it to be achieved? All of us believe in our system of private enterprise. I am convinced that while some incentives may be required here and there, this job can and will be done by free enterprise.

In the short space of three hundred and thirty years, private enterprise wrested American civilization from the wilderness and gave us an economy producing the highest standard of living the world, in all of its thousands of years of recorded history, has ever known. It has made us the most powerful nation in the world.

Thus, for the expansion of industry we should and we will depend, primarily, upon the initiative and ingenuity of the American businessman. And it will be a voluntary decision on his part with the government only furnishing needed incentives. These incentives are, generally, of two types -- direct loans and limited tax relief.

Of course there is a natural reluctance to pour money into plant expansion which may become useless upon the turn of an international card. Crises of indefinite duration provide little assurance of continued need for products essential to military preparedness or war. Accordingly, I believe it is both fair and sound to offer inducements to plant expansion.

One of the best and fairest inducements is to permit amortization of plant costs over a brief period. Such a system has many advantages.

From the standpoint of the government it accomplishes the desired result without the expenditure of public funds. Temporarily, during the amortization period, of course, less money is collected in taxes than would otherwise be payable. In a short time, however, the plant is completely amortized and after that no further deductions for depreciation are available.

From the point of view of the taxpayer, a certificate permitting him to amortize his plant investment quickly during full production and high earnings, greatly reduces his risk of loss due to a sudden drop in demand should the crisis abate earlier than anticipated.

Thus, the amortization certificate, in my opinion, provides an ideal method for channeling private capital into necessary plant expansion. Further, I believe such certificates should be granted on as widespread a basis as possible. To the extent that there are benefits to be derived by the recipient as large a proportion of the business population as possible should receive them. In this way not only will the costs be shared more equitably but competitive industry is more likely to be kept on an equal footing.

There is at present a temporary freeze on the issuance of amortization certificates of necessity. I am confident, however, that this represents no change in the Government's basic acceptance of this method of encouraging essential industrial expansion. Rather, the raw materials squeeze has made it necessary to put on the brakes.

There are, of course, other ways in which the Government can and does assist in our industrial expansion. It grants or guarantees loans; makes premium payments for additional higher cost production; gives long term purchase commitments at fixed or minimum prices. If necessary it can even build facilities itself, to be operated by private lessees.

Whatever the method adopted, the time to expand, I repeat, is now. It is now that business conditions and prospects are good. It is now that there exist great demands upon our industrial capacity.

All of us must have the courage of our convictions. Although it is the urgency of defense mobilization which furnishes the immediate demand and impetus for expanded industrial production, that is neither its sole nor ultimate purpose. We are committed to the proposition that every individual under our system of free institutions is entitled to the opportunity to obtain for himself and his family a high standard of living. The key to this great goal is the ever-increasing productivity of our private economy.

While we today concentrate on the troubled horizons which threaten the survival of the free world, we must at the same time find it possible to sustain our basic hopes, our fundamental principles and our democratic institutions. While now we must produce and expand for a war, which we hope will never come, tomorrow that industrial expansion will make its contribution to the greater prosperity of a peaceful world.