

VERNMENT



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# STATEMENTS AND SPEECHES

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CANADA'S PREPAREDNESS PROGRAMME

An address by the Deputy Minister of Defence Production, Mr. R.M. Brophy, at the Annual Meeting of the Canadian Industrial Preparedness Association, at Quebec, October 16, 1952.

... In one of your recent reports, attention was drawn to the fact that the Government's three-year defence programme is scheduled to wind up in 1954. A very natural question of course follows: "Where do we go from here?" This question can be separated into two parts. The first has to do with what happens to industry when the present preparedness programme has reached its objective. The second is, what are the Government's long-term plans to maintain our defence potential and what are the plans to deal with an emergency requiring full mobilization of all our resources.

I am not going to attempt to deal with this second phase, as it is primarily a matter which is outside my terms of reference. I would, however, like to bring to your attention some recent remarks by Henry H. Fowler, Director of Defense Mobilization in the United States. When he appeared before the Congressional Joint Committee on Defense Production, he pointed out that any programme for insuring industrial readiness, for full mobilization must be highly selective, and he went on to say that any attempt to insure capacity for every known type of military equipment would prove an impossible task under present circumstances. While Mr. Fowler went on to recognize the importance of an adequate mobilization base, I am inclined to agree with him when he says that this "is the great dilemma of our times".

I know that on this particular question many of you are thinking back to the early part of the last War, when it took us from 18 months to 2 years to get into production because the specifications and drawings and technical know-how were to a large extent in the hands of the British and the Americans. This, however, is not the case today. As a result of our experience in the last War, together with the progress that is being made in the present programme, Canada is now in a much better position in terms of industrial readiness. We are getting experience in producing the type of military equipment that is being used today, and we are building up the facilities that can be quickly expanded to meet mobilization requirements.

I have said that the long-term planning phase was outside my terms of reference. On the other hand, the current programme is very definitely my business. It is now well over a year since the Canadian Government announced its three-year 5 billion dollar defence programme. We are all agreed, I know, that these figures, both as to time and value, were targets based on a rough estimate of the job to be done. In the past year and a half, the programme has taken shape and as a result of various developments, we now have a clearer picture

of its size and scope.

One factor affecting the size of the programme has been the broader international commitments which the Government has assumed. Our first plans called for one brigade. Today we have one brigade fighting in Korea and a second forming a part of the NATO Army in Europe. We have also increased our Air-Force commitment to 12 squadrons of F-86 "Sabre" fighters. We are supplying additional equipment for NATO, including a large number of aircraft for the R.A.F. as part of our mutual aid programme.

I know that you, as production men, will be familiar with some of the factors that have affected the length of the programme. As a result of the decision to standardize on U.S.-type equipment and because we are producing a number of items in this country for the first time, there have been delays in securing detailed plans and specifications and in acquiring manufacturing "know-how". Machine tools have presented a problem; in fact, for a time, we faced a worse bottleneck than during the last War. This was especially true of tools required for U.S.-types of military production, where we are competing with the United States Services for limited supplies. Many of you here today have also personal experience in dealing with some of those difficulties that we have encountered in moving from the development to the production stage. All of these delaying factors have tended to stretch out the programme. These have now been largely overcome and we are well into the production phase.

The most important point to be remembered in considering the length of the programme is the fact that we are dealing not with one programme but with several, and each has its own individual characteristics and problems; and consequently the impact and completion of these will be felt at different times. In a programme ranging from shoes to minesweepers and from serving forks to jet aircraft, it is only natural that this should be so.

In looking at the question "What's ahead for industry?", there are a number of factors to be taken into account. In the first place, as I have pointed out, there will be no abrupt cessation of activity on the 31st of March, 1954, and certain programmes will continue beyond that date.

In any case it should be realized that, even when the original physical objectives have been reached, there will continue to be defence spending to support a certain level of defence preparedness. We will still keep our military establishments in Canada in operation, and we will have continuing commitments under the United Nations and the North Atlantic Treaty Organization. Another factor that has a bearing on the future of the defence programme is the significance of obsolescence in equipping a modern military machine. It sometimes seems to me these days that there isn't even time to take a good deep breath before some piece of military equipment becomes obsolete. Undoubtedly, we will have to continue to keep pace with major technological advances, since the staying power of the democracies is a basic condition for their survival, and neither peace nor war remains static.

Furthermore, the effect of the gradual fulfilment of the current accelerated defence programme on industry, will be conditioned by the state of the Canadian economy. Since the end of the last War, Government policy has been directed towards ensuring and maintaining a greater degree of economic stability.

A number of measures have been taken to encourage investment and to cushion any recession that might occur. Other measures have been taken from time to time to meet special situations and conditions of the times. When the outbreak of hostilities occurred in Korea, national production, employment and income were at high levels and the Canadian economy was operating at close to capacity. This naturally meant some adjustment had to be made to meet defence requirements, but the impact of rearmament varied widely with different industries. In large measure, this impact has tended to be concentrated on metal working plants, since well over two-thirds of the orders placed have been for aircraft, ships, guns, ammunition and electronic equipment.

Additional capacity has mushroomed to handle military orders and to satisfy a growing demand for many of our basic resources. Not only has the Government encouraged such investment, but it has also taken steps to retard investment in consumer goods and services. As the defence programme continues and as the materials situation improves, it will be possible to replace defence outlays with some of this backlog on the consumer side.

A high level of investment is an important factor to Canadian prosperity. You may be interested to learn that a survey of industry's plans for the period 1952 to 1955 shows a total capital outlay of some 5 billion dollars. The expenditure of this sum would maintain Canadian investment at the 1951 level for nearly three years. It is, of course, difficult to forecast what is going to happen two or three years from now, but the general outlook for Canadian industry is encouraging.

Another point to bear in mind in considering what will happen to industry, is the way in which the Government has handled the financing of new investment for defence. As you know, the Government's policy has not been to call upon private enterprise to shoulder the burden of investment in facilities with little or no residual commercial value. To meet the more specialized requirements of the defence programme, the Government arranged for Crown-owned facilities to be built with capital assistance. This was done particularly in aircraft shipbuilding -- and here I am speaking of these industries in the broadest sense, including subcontractors as well as prime contractors -- where it was felt that private industry, on its own, could not justify the investment involved. In other cases, where the long-run commercial prospects were more promising but industry did not feel that it could undertake further investment at this time, the Government has granted accelerated depreciation.

The way in which these two measures have been used has, I feel, strengthened Canada's industrial base. By relieving industry from investing in new facilities that could be used only for defence production, and by encouraging investment in facilities of value in normal commercial operations, the Government has gone a long way towards ensuring smooth conversion from defence to civilian business.

As you may know, the Department has been giving some thought to the use that should be made of these two financial measures now that arrangements have been made for the creation of most of the new facilities needed to carry out the programme. It would seem that there is now a good deal to be said for using accelerated depreciation wherever possible in place of capital assistance.

From the Government's point of view, there are a number of arguments in favour of this policy. In the first place, accelerated depreciation avoids many of the problems associated with Government ownership; it eliminates the need for continuing supervision; it does away with the problem of ultimate disposal; it provides a greater incentive for economy in making the original investment.

The advantages to industry are also considerable, particularly from a long-term point of view. In the first place, while accelerated depreciation offers an incentive to corporate and private business to invest in defence, it also offers industry a challenging opportunity to express its confidence in the future of Canada. It provides an opportunity to gain technical "know-how" and to share in possible Canadian industrial developments in the post-emergency period. Furthermore, in contrast to Crown-owned facilities, it enables the owner to plan for future operations with the assurance that the assets will not be disposed of to a third party. While accelerated depreciation is not an allowable element of cost in current Government contracts, it does provide protection for corporate and private capital investment. A further incentive to this type of investment is that consideration can be given to profit allowances at a higher level than those granted to firms operating with facilities furnished by the Crown.

So far we have been considering the question of what lies ahead for industry when we reach the objective of the present defence effort. I would like now to give thought to this question in relation to the immediate future. It is always a good thing to plan well in advance for a possible contingency but in doing so we don't want to neglect the job in hand. From the Government's point of view, the task immediately ahead of us is to maintain production schedules and to get deliveries as quickly as possible in order to attain the degree of strength needed to stop aggression.

I well remember the enthusiasm which Canadian industry first showed in tackling this defence job. Much of that enthusiasm is still in evidence and there are many companies today that are putting their best effort into defence work. On the other hand, we are facing situations where it is hard to get firms to take on certain types of defence contracts and also where there is a slowing down on work already in production. In other words, it seems to those of us who are looking at the picture from the Government side that there is a growing tendency to put priority on commercial work instead of defence contracts.

I know that there are reasons for this change in attitude. Some of it has been due to delays which were probably unavoidable but for which the Government must take some responsibility. I have already mentioned the difficulty of getting plans and specifications in the changeover to U.S.-type equipment which has held up production on a number of items. Then, too, an entirely new department had to be set up and it naturally took a little time to get under way and to iron out some of the administrative difficulties.

Another reason for the change in attitude is that the programme has been far more complex than any of us could foresee in the beginning. The technological progress in military weapons and equipment that has been made since the last War has been tremendous. This in turn has made the production of these items a more difficult proposition, calling for greater precision and skill than was needed before. We are up against examples of this every day.

The requirements on the metallurgical side are much greater. For example, in making castings for guns and for ship accessories, the physical characteristics and the close limits of chemical analysis cannot be compared with anything we had to cope with in the last War. As you know, on a naval ship, space is at a premium. As a result, we have to have electrical equipment with higher operating characteristics in much less space than is taken up by equipment of normal commercial design. On the precision side, the story is the same. In the last War, we were working with dimensional tolerances of a thousandth of an inch; today they are ten times more exacting.

I could go on for some time giving further examples of some of the complexities in the present programme that have created difficulties not only from the manufacturer's point of view but from the Department's standpoint as well. There have been many tough jobs due to the fact that we are making more complex armament and because we are making much of it for the first time in Canada. Added to these technical problems is the fact that portions of the equipment we are making today continue under development in the country where the design originated and that means that engineering changes are coming forward all the time.

As a result, the technical burden placed on industry has been great and this in turn has created a personal problem. It takes high-grade administrative staff and skilled workers to carry out many of our defence contracts and sub-contracts. In a number of cases, defence work is only about 20 per cent of the firm's total business, and yet it takes 50 per cent of the technical staff to handle it. From a profit point of view this is serious, because there is no doubt but that it tends to raise costs on commercial business.

Time after time, when we have looked into reasons for delay, we have come right up against the problem of inadequate technical personnel. We find it in the construction industry as well as in shipbuilding; we find it in guns as well as in electronics - in fact it is right through the piece. In discussing it in the Department, it seems to be an industry-wide problem. It is one that requires immediate attention and one that only industry can solve.

If Canada hasn't enough qualified technical personnel to carry out a defence programme of this size, what would we be up against in the event that we were called upon for an all-out effort? It seems to me that this question has even wider ramifications if we have confidence in Canada's continuing prosperity. Are we going to have enough trained people to back up all the capital investment we are making in this country?

I leave the thought with you as a project which might be studied by C.I.P.A. I can assure you that, if we in the Department can be of any assistance in this connection, you have only to call on us.

Getting back to this matter of a certain indifference towards defence work that we are finding in industry, I want to point out again that this by no means applies to industry as a whole. However, it is true of certain firms. I am sure that we all embarked on this defence effort with the earnest desire to make a worthwhile contribution to the defence of this country and to the defence of the free world. I know that the delays and complexities have been discouraging. Nevertheless, the necessity to complete the programme as soon as possible is still there. We have undertaken certain commitments and it is up to us

to carry them through. As I see it, a defence contract carries with it a good deal of responsibility -- responsibility to keep costs down, to maintain production schedules, and to meet delivery dates.

The financial inducement to accept this responsibility is, I know, not very great, but surely the returns are immeasurable. Individually, Canadians are making their contribution to Canada's defence. Industry, particularly in a free enterprise country, has an equal stake in this endeavour and the acceptance of defence contracts, even if they are not as lucrative as commercial business, is not too high a price to pay for the maintenance of political and economic freedom.

I think we have reached a point in our defence production programme where it is important that we should take another look at our reasons for undertaking a preparedness effort of this kind. If those reasons were valid a year and a half ago, they are valid today. Nothing has occurred in that time that would suggest we should slow down our efforts to strengthen our economic and military defences. It is hard, I know, to maintain a sense of urgency over a long period. On the other hand, a feeling of complacency in the present situation must be avoided. Any loss of momentum in the defence programme would prevent the completion of the task we have undertaken. None of us can afford to forget at any time that we are confronted by a ruthless ideology that has for its ultimate purpose the destruction, not only for individual freedoms, but also the rights enjoyed by industrial groups under a free enterprise system.

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