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INCREASES IN STEEL PRICES

HEARINGS

BEFORE THE

JOINT COMMITTEE ON THE ECONOMIC REPORT

CONGRESS OF THE UNITED STATES

EIGHTIETH CONGRESS

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INCREASES IN STEEL PRICES

TUESDAY, MARCH 2, 1948

UNITED STATES SENATE,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met at 10 a. m., pursuant to call, in the caucus room of the House Office Building, Senator Robert A. Taft (chairman of the committee) presiding.

Present: Senators Taft (presiding), Flanders, Watkins, O'Mahoney, Myers, and Sparkman.

Present: Representatives Jesse P. Wolcott, Robert F. Rich, Christian A. Herter, Edward J. Hart, Wright Patman, and Walter E. Huber.

Subcommittee members present: Representatives Henry O. Talle, Norris Poulson, and Clarence E. Kilburn.

Also present: Senators Charles W. Tobey, George W. Malone.

The CHAIRMAN. The committee will come to order.

In connection with the work of this committee, which has to make a report shortly on the President's Economic Report, and which has to deal particularly with the whole question of whether we should impose price controls or rationing and allocation controls as requested by the President, and in connection with the general study of inflation and deflation and the possible avoidance of depressions, the committee voted to ask a representative of the United States Steel Corp., one representative of Little Steel, and one representative of the smaller independent group to appear today to testify regarding the recent increase in the price of certain steel products.

The first witness is Mr. Benjamin F. Fairless, president of the United States Steel Corp. Will Mr. Fairless come forward?

I notice you have a written statement, Mr. Fairless. Would you prefer to give that statement first before questioning begins?

Mr. FAIRLESS. Thank you, Mr. Chairman.

STATEMENT OF BENJAMIN F. FAIRLESS, PRESIDENT OF UNITED STATES STEEL CORP., ACCOMPANIED BY DAVID AUSTIN AND ROGER BLOUGH OF THE UNITED STATES STEEL CORP. OF DELAWARE.

Mr. FAIRLESS. The recent increase in our prices for semifinished steel was followed by such a wave of inaccurate statements, rumors, and exaggerations that I am glad to have this opportunity to get the facts on the public record.

What are the facts?

1. United States Steel has made no general increase in the price of its steel products and it does not now contemplate making any such increase.

2. United States Steel has entered into no agreement or understanding, private or otherwise, to grant further wage increases.

3. This price change was our own independent action, caused by our continuously increasing costs. Any charge or insinuation that we acted in concert with any other steel company is without foundation.

4. United States Steel suffered a heavy loss on its sales in 1947 of over 2,000,000 tons of semifinished steel. Losses on this material have been at an even higher rate this year, necessitating an increase in February in our prices for such semifinished steel.

5. United States Steel is a victim of inflation and not the cause of it. Steel prices as a whole have lagged far behind the prices of other commodities. United States Steel cannot fairly be made the scapegoat for the Nation's economic ills.

We in United States Steel believe that costs and prices in general are too high for the good of the Nation. At the conclusion of my remarks I will have a definite statement to make that I sincerely hope will help the national situation.

Criticism of our action in advancing the prices of certain steel products has led to this hearing. I believe that much of the criticism has been emotional or political in character. I should like today to reduce this matter to what I believe are its proper proportions.

The criticism centers upon increases in our prices of semifinished steel. On February 13 last, our subsidiary, Carnegie-Illinois Steel Corp., announced to its customers increases in its prices for certain semifinished steel products averaging about $5 a ton, or one-quarter of a cent per pound.

Semifinished steel consists of ingots, slabs, billets, blooms, tube rounds, and skelp. This is not the kind of steel sold commercially on a wide scale, or used generally by steel consumers. On the contrary, as its name implies, it is raw or semifinished steel requiring further rolling or processing before it becomes a finished steel product for use in the manufacture of consumers' products.

Semifinished steel constitutes a small part of our total business. Sales last year by United States Steel of semifinished steel of the kinds covered by the recent price increases amounted to approximately 2,000,000 tons. These sales represented only 10 percent of the total tonnage of steel products shipped by United States Steel to the public during 1947.

By far the greater part of our semifinished steel business is handled by our subsidiary, Carnegie-Illinois Steel Corp. The customers of Carnegie-Illinois for semifinished steel are few in number, not over 75 as a whole. Ten of these customers—all fairly large companies—account for about 80 percent of Carnegie-Illinois' entire sales of this material.

What I am trying to make clear is that semifinished steel is not an article of ordinary commercial usage sold to the public or to a wide range of customers. Rather it is a somewhat special form of steel used as a raw material by only a few concerns. I am convinced that the recent increase of one-quarter of a cent per pound in the price of this semifinished material is too small and unimportant in itself to pave the way toward a higher price level for the various articles of everyday use made out of steel. In my judgment, the inflationary influence of this price adjustment has been grossly exaggerated.

I want to tell you why we believe this modest increase in our prices for semifinished steel was proper and fully justified by the facts. I tried to tell the story in a statement which I issued on February 20, when these exaggerated accounts first appeared. Unfortunately, very little attention was then paid to my explanation.

I have been in the steel business for many years. My job is to see that our business is conducted efficiently and profitably. I do not see how a business can endure if the prices for its products do not pay their way.

The problem of continually mounting costs over the last 6 or 7 years, both in operations and in plant replacements and enlargements, has been of deep concern to us. I am sure it has been equally so to manufacturers generally, both large and small. At the end of 1947, average hourly earnings of our employees had gone up 80 percent since 1940. Their average weekly earnings had advanced 89 percent during that period. Since 1940, American industry has experienced a series of wage increases and other inflationary influences, which have been beyond the control of United States Steel Corp. or any other single company.

A short time ago the situation became so disturbing to United States Steel that we felt it necessary to take a fresh look at the relationship between costs and prices of our many steel products. This relationship changes from day to day with changing conditions. It has been growing progressively worse from a financial standpoint due to higher labor costs and to constantly higher costs for the goods and services which we must purchase to continue in business. At this point, Senators, I should like to have you understand that for every ton of steel that we ship out as a finished product, we must take into our plants over 4 tons of raw materials. In 1947, 39.6 percent of the total sales revenue of United States Steel was spent in the purchase of such goods and services.

The CHAIRMAN. By that you mean wages and services?

Mr. FAIRLESS. It covers only the goods and services that we purchose from others.

The most disturbing situation revealed by this recent survey was that of semifinished steel. We found that in the month of January 1948, Carnegie-Illinois lost approximately a million dollars on its sales of semifinished material to a handful of customers. We saw no good reason why United States Steel should be granting a subs dy of around $5 a ton to these particular customers, most of them large and profitable concerns.

It seemed to us that we had the alternative of doing one of two things: Either to raise the price of such semifinished material so as to permit us at least to break even on such sales, or to abandon the marketing of semifinished steel entirely and use that steel for the production of our own finished steel products. We chose the first alternative, as it did not seem that we should cut off the source of supply of raw steel for these particular customers.

The total amount of semifinished steel sold commercially by the entire steel industry is so small—less than 9 percent of the industry's total steel shipments, according to the figures of the American Iron and Steel Institute—that I cannot see how such an increase in the price of these few products can have any substantial effect upon the prices of finished steel products in general.

We cannot expect to have proper prices for our finished steel products as a whole unless this unsound relationship between costs and selling prices of our semifinished material has first been corrected.

We felt that such a correction was proper at this time, taking into account the character and small number of purchasers of this semifinished material, the use made of such material, and the relatively low percentage of present steel business represented by sales of such material. Even after this price adjustment, one of our semifinished products is still selling at a loss.

Mention has been made that the price adjustment on semifinished steel was brought about by changing sales prices from a gross ton to a net ton basis. This is true. The change to a net ton basis merely followed a trend in the steel industry, which has been going on for many years for purposes of simplification. At present, very few steel products are today sold on a gross ton basis.

Your appraisal of the soundness of our recent price action should be made in the light of the problems facing us. Some people seem disposed to assume that United States Steel is free from the effects of higher costs of labor, transportation, and everything in the way of goods, equipment, supplies and services which we purchase. The stern fact is that we have to find the money out of proceeds from the sales of our products to pay these higher bills—just the same as everyone else in this country.

Let me review what has happened in the last few years.

1940 was a fairly good business year for United States Steel. We operated at 82.5 percent of our ingot capacity, shipped 15,000,000 tons of steel products, and earned a profit of $102,000,000, which was equivalent to a return of about 9½ percent on sales and 7 percent on investment. In considering our return on investment for 1940, or for 1947, or for any recent year, you must bear in mind that this return is calculated on the basis of our book values, which are far below present costs of replacement. That comparison, incidentally, is on the basis of about $20 per ton of depreciated book value for our existing facilities against a replacement cost of approximately $300 per ton.

Beginning in 1941 and continuing until the present time, United States Steel has been subjected to the pressures of higher and higher costs. There were substantial wage and salary increases to our employees and other cost increases in 1941. There were further wage advances in 1942 and again in 1944, in both years as a result of directives of the National War Labor Board.

Each advance in general labor rates was soon followed by increases in the cost of goods and services purchased by United States Steel. As you have witnessed, a wage advance in one major industry almost immediately spreads to other industries and soon occasions higher prices for the products of those other industries to compensate for their higher employment and other costs. It has been our experience in the past year that the direct cost in dollars of a wage increase is before long matched by approximately an equal increase in dollars in the cost of our purchased goods and services.

Please bear in mind that in spite of these constantly increasing costs of operations, the prices for our steel products were subject to rigid governmental control until November 1946.

When the United Steelworkers of America, toward the end of 1945, insisted upon an additional wage increase of 25 cents an hour, we took the position that there could be no further wage increase by us without an advance in the OPA ceiling prices for steel products. The publicly stated attitude of the administration at that time was that industry as a whole could afford substantial wage increases without raising prices. Furthermore, it was the contention of the administration that, although the war was over, there should be no substantial diminution in workers' wartime "take-home pay." During the war, "take-home pay" had included large premiums for overtime work.

A month's strike in the steel industry ensued, beginning in January. This strike ended following a decision by the administration that a wage increase of 18½ cents an hour should be granted to our steel workers and following an increase in OPA steel ceiling prices of about $5 a ton on the average.

By the time our labor contract with United Steelworkers of America expired in April of last year, a new wage pattern had already been set in the United States. Wage increases of around 15 cents an hour had been previously granted in other basic industries. We could not escape from that established wage pattern, unless we were willing to risk a strike. About 3 months later, further cost increases followed in our coal operations as a consequence of the negotiation of a new labor contract in the bituminous coal industry. In my opinion, strikes at that time would have had a disastrous effect upon industry, labor, and the whole domestic and foreign economy.

Despite the fact that this new labor contract with the United Steelworkers of America increased our employment costs to the extent of more than $75,000,000 annually, we did not immediately increase our prices for steel products to provide the money to take care of this additional cost. Instead we waited 4 months to ascertain the actual effect of this wage increase under then prevailing high steel operations. We hoped that we might be able to absorb some part of this additional expense. Our reason for not acting on prices immediately after the signing of this new labor contract was solely one of regard for the public interest. We did not want to advance steel prices to any greater extent than was required by our actual operating experience.

Last August we reached the conclusion that in view of higher costs for labor, materials and services, we had no alternative other than to advance our steel prices on the average approximately $5 a ton. That price increase was less than the actual increase in cost which we had experienced during the first 6 months of 1947. Our price increases of last August did not provide for the additional cost resulting from the coal labor settlement of July 1947. At that time we did not know what that additional cost would prove to be.

Since then our costs have continued to mount. The purchase price of almost everything we buy has gone up materially. Surely you are familiar with increases in the prices of scrap, and other essential raw materials. You also know of recent increases in railroad transportation rates. All of these higher operating expenses cause us grave concern.

Some of you may be thinking that such rises in steel prices as have taken place in the past few years have constituted a contributing factor to higher prices in general. But I want again to emphasize that the price of steel has gone up far less than the prices of other commodities. During the period 1940 to December 1947, the Iron Age composite of base prices of steel moved up 39 percent. This Iron Age composite, while not all-inclusive, is accepted as representative of steel prices in general.

At this point, with your permission, I should like to give you the result of all increases in price for that period, including extras and any changes that have been made, including base prices. In our experience it amounts to 46 percent.

In the same period, according to the figures of the Bureau of Labor Statistics of the United States Department of Labor, the wholesale price of all commodities advanced 108 percent, nearly three times as much as the advance in base steel prices. To have maintained parity with this index of wholesale prices of all commodities, base steel prices in December 1947 would have had to be 50 percent greater than they actually were.

If farm products and foods are eliminated from this Bureau of Labor Statistics index, the rise in general commodity prices during this period is 75 percent, about twice as much as the increase in the base prices of steel during the same period.

The Bureau's index of farm product prices shows an increase during this period of 190.3 percent, as compared with an increase of 39 percent in base steel prices, or as I have stated, 46 percent including all other extra changes.

I should like again to impress upon the members of this committee the fact that steel prices have been and are still lagging far behind the prices of other commodities.

Mention has been made by some critics that United States Steel earned about $127,000,000 in 1947, the inference being that profits of this size should permit any loss on the sale of semifinished steel to be absorbed. I do not think it is sound business or good economics to continue to conduct one segment of our business at a loss of around a million dollars a month, when this loss results not from lack of demand for the products in question, but rather from an unsound and improper relationship between the costs and selling prices of these particular products. An unhealthy situation of that kind exists and calls for remedial action.

The CHAIRMAN. There might have been decreases in the price of other products. That might be an answer to that argument, I should think.

Mr. FAIRLESS. I am coming to that later in my statement, Mr. Chairman.

What happened to United States Steel in 1947? We shipped over 20,000,000 tons of steel to the public. This was 5,000,000 tons more than we shipped in 1940. The figures for 1947 show that our profit for the year was equivalent to a return of 6 percent on sales and a return of about 7½ percent on investment. In my opinion, such a return on sales was far from being high, considering that our shipments of steel products for the year 1947 established a new peacetime record in tonnage and our sales for that year were the largest in the history of United States Steel.

At first glance, it appears that United States Steel in 1947 earned a profit $25,000,000 in excess of that for 1940. But, in terms of what dollars would buy in 1947, United States Steel made $22,000,000 less in 1947 than in 1940, in spite of an increase of more than one-third in its shipments of steel products.

You can compare our financial results for 1947 with those for 1940 in this way. We shipped a third more steel in 1947 than in 1940, but we earned one-fifth less in terms of 1940 purchasing power.

For some time past, economists and others have urged upon the steel industry the necessity of an extensive expansion of its steel making and finishing facilities. Long before there was any talk of this kind, United States Steel undertook on its own initiative a large improvement and replacement program, which is now in course of completion. The program adopted since the end of World War II involves an expenditure by United States Steel of approximately $775,000,000. When completed, the capacity of United States Steel to produce various steel products now in great demand will be substantially increased.

If we are to complete this program and provide steel for the expanding future needs of this country, we must be cognizant of the financial facts of life. We cannot afford to operate any segment of our business at a big loss. We must maintain our structure in a healthy and sound financial condition.

In carrying out this current construction program, we have learned the hard way about the pressure on our funds caused by continuously rising construction costs. The actual cost of construction has been found to be materially higher than the cost originally estimated by us, covering new facilities requiring 2 or 3 years for their completion. Each new estimate involves higher costs.

Let me give you a few examples of the increases in costs to which we have been subjected over the past few years.

One dollar of labor cost in 1940 now costs us $1.80. In brief, our wage and salary costs per hour are up 80 percent.

Scrap, which is essential in steel making, costs us more than double what it did in 1940. The going price for scrap today is around $40.50 a ton. Compare this figure with the price for billets which before this price increase was $45.50 a ton.

The CHAIRMAN. I do not want to interrupt, Mr. Fairless, but in regard to this estimate of wage costs being up 80 percent, is there any difference in the productivity? Have you any figures to show whether the productivity of labor now is any greater or whether it is less?

Mr. FAIRLESS. I have not the actual figures, Mr. Chairman, but the productivity is less, although there are definite signs of improvement. I can only speak of the steel industry, but our productivity is showing signs of becoming better, although it has been worse.

The CHAIRMAN. Per man-hour it is less than it was in 1940?

Mr. FAIRLESS. There is no question about that.

The CHAIRMAN. What about the recent price of scrap, did that not go down when the other commodities dropped?

Mr. FAIRLESS. This is the most recent price that I have quoted. The price has been higher than this.

The CHAIRMAN. How much was the drop in price?

Mr. FAIRLESS. I think it was about 50 cents a ton.

The CHAIRMAN. Only 50 cents a ton?

Mr. FAIRLESS. Yes.

The CHAIRMAN. You may proceed.

Mr. FAIRLESS. A ton of pig tin used in the manufacture of tin plate, which cost about $1,000 in 1940, now costs us nearly $1,900.

One of the most serious problems we face is the wearing out of our machinery and equipment and the necessity of replacing these facilities at constantly mounting costs.

A large electric motor which cost $177,000 in 1940 now costs us $265,500.

A standard mill crane of 20 tons capacity cost $39,000 in 1940. Now it costs $80,000.

In 1940, a new blast furnace cost 3½ million dollars. The other day we received a bid of 7 million dollars for the same type of furnace, constructed from the same plans, to be built in the same location.

Some critics have charged that our profits for 1947 were high, mentioning an increase of $38,000,000 over 1946. In fact, the financial results for the 2 years are not fairly comparable. In 1946, we were plagued by serious steel and coal strikes, which caused us an estimated production loss of 6.3 million tons of ingots and severely affected the profits of United States Steel.

In terms of the reduced purchasing value of the 1947 dollars, the profits of United States Steel in 1947—a year of near full capacity operations—were not high. If anything, they were low in the light of existing conditions.

I think an examination of our financial statement for 1947 will disclose some rather startling facts. Our working capital declined many millions of dollars during the year. This came about primarily because we spent more for additions to and replacements of our facilities than the depreciation provided. In other words, our funds available for doing business and for buying new facilities decreased materially during 1947. The serious feature is that this actually happened in a year of record peacetime production.

The present-day rate of taking in and paying out dollars must somehow be changed, if we are to maintain an adequate working capital and replace our production facilities as they wear out.

Senator O'Mahoney. Do you mind an interruption there, Mr. Fairless? In view of this sad picture which you have just drawn, would you please tell the committee how the United States Steel happened to be able to declare an extra dividend last December?

Mr. Fairless. An extra dividend? I will be very happy to. We declared it out of earnings, of course.

Senator O'Mahoney. You were not impeded, in making that declaration of an extra dividend, by this sad picture, were you?

Mr. Fairless. Senator, the dividend history of the United States Steel Corp. is a sad one, so far as the stockholders are concerned.

Senator O'Mahoney. Of course, we all know, from the history of the United States Steel, that the common stock originally was mostly water, and that the capital upon which United States Steel was formed was obtained in another manner, but the successful operation of the United States Steel over a long period of years has made this watered stock very valuable now. In other words, the history of the development of inflated stocks has been the history of the development of the United States Steel, has it not?

Mr. Fairless. I do not agree with your statement.

The Chairman. Do you not think, if we are going to get into a general argument, we had better let Mr. Fairless finish his statement? I thought questions which merely corrected figures or elaborated on his statement might be permitted, but Mr. Fairless asked that he be permitted to finish, and I think he ought to, before we get into these general basic questions about profits.

Senator O'MAHONEY. I quite agree.

The CHAIRMAN. You may proceed.

Mr. FAIRLESS. Rather than abandoning our construction program—the completion of which we regard as being distinctly in the public interest—we reviewed our prices, product by product, to ascertain any really unhealthy situations, but without any thought of a general increase in finished steel prices. The semifinished steel situation stood out like a sore thumb.

Suppose you were responsible for operating a business which had sold about 2,000,000 tons of such semifinished steel during 1947, and you learned that you were losing $5 a ton during January 1948 on this business. What would you do? I am certain that you would have done exactly as we did, try to establish a reasonable relationship between costs and prices. We applied this same principle in advancing prices of tubular products, and of certain extras on structural steel, which occurred at the same or approximately the same time.

Our critics say that these price adjustments, even though proper in themselves, were badly timed. In my long experience in the steel industry, I have never known a time when an increase in steel prices was popular, or regarded as well-timed. These critics contend that just when prices of farm commodities were starting to come down and there seemed to be a chance that further inflation in this country might be arrested, we voluntarily chose to increase a few of our prices in complete disregard of the public interest.

I can assure you, gentlemen, that these price adjustments were not made by us in disregard of the public interest. We thought we were acting conservatively and in the interest of the national economy. We acted only after we found that our costs could not be absorbed within the existing price structure. But when we were faced with $40.50 scrap and $11.20 coke and a mounting loss, either we had to discontinue producing billets that sell for $45.50, or increase the price. No one will deny the course we adopted was better than to discontinue the sale of semifinished steel, even though we needed it ourselves and could have used it more profitably in our own finishing mills.

We do not believe that the national interest is promoted in the long run by continuing a course of action which depletes the physical and financial assets of our company. We are most anxious to maintain and strengthen our company so that we may continue in the future to serve the public interest to the best of our ability.

When the story of today's high cost of living is fairly told, the blame will not be put on the price of steel. Everyone knows we are charging far less for our steel than we could get in today's market. Steel prices are not high in the light of present-day costs. Certainly the high cost of living is not due to present prices of steel.

I have a suggestion to make, which I hope may be helpful in the public interest. It is that American industry and labor should do everything in their power to avoid further increases in costs. If steel costs continue to go up, steel prices must also go up. That is inevitable. If this country experiences a third round of wage increases, it must also expect to experience still higher prices for most of the products of industry.

Is it necessary to have a third round of wage increases? I don't believe it is. Furthermore, I don't believe such a further wage increase will in the long run bring benefit to anyone. In my opinion, it will only result in further inflation and distress for many of our people.

When United States Steel finds that costs are no longer on the upward trend, I can assure you that it will give earnest consideration to a reduction in the selling prices of its various steel products.

The CHAIRMAN. Mr. Fairless, you agree fully, I assume, with the general theory that a rising spiral of wages and prices is likely to result in disaster ultimately if it goes on?

Mr. FAIRLESS. I so stated.

The CHAIRMAN. You suggest that it start with no wage increase, but might it not also start with no price increases?

Mr. FAIRLESS. It might start with both.

The CHAIRMAN. How can we hope, if prices go on increasing, to necessarily hold down wage increases?

Mr. FAIRLESS. Well, Mr. Chairman, as a manager of a business which is important not only to its owners but to the Nation and the world, No. 1, I feel that that business should be conducted on a sound basis. The only way I know to run a business is to show a satisfactory profit.

I wish I were a magician, that I could disregard increases in cost, and I wish I were so good that I could absorb increases in cost and at the same time reduce selling prices. But that is a fallacy.

The CHAIRMAN. Your company did make $150,000,000 last year, which was the largest profit in the history of the company, was it not?

Mr. FAIRLESS. Oh, my, no.

The CHAIRMAN. It was the largest profit since when?

Mr. FAIRLESS. I will give you the earnings record of the steel corporation from its inception, if you would like to have it.

The CHAIRMAN. All right.

Mr. FAIRLESS. Keep in mind that the United States Steel Corp. is much larger today, too, than it was. Do you want it all, year by year?

The CHAIRMAN. I do not want it all. Take a few typical years. What was it in the height of the 1928–29 period?

Mr. FAIRLESS. In the 20's, for example, or I will go back to 1916, the steel corporation earned $271,000,000; and in 1917 it earned $224,000,000.

The CHAIRMAN. Those were war profits without price control, were they not?

Mr. FAIRLESS. I will go on now into the 20's, which followed, which would be comparable, I should say, with today. In 1926, on a much smaller volume, of course, the steel corporation earned $116,000,000; and in 1927, $87,000,000; and in 1928, $114,000,000; and in 1929, $197,000,000; and in 1930, $104,000,000.

The CHAIRMAN. So that we might in the first place get the figure agreed on, that $150,000,000 was the net income after taxes, before the reserve of $26,000,000; is that correct?

Mr. FAIRLESS. That is before the reserve, which amounted to about $27,000,000.

The CHAIRMAN. That is not a deductible item on the income tax, is it?

Mr. FAIRLESS. No; it is not.

The CHAIRMAN. So, for United States income-tax purposes, it was $150,000,000; is that correct?

Mr. FAIRLESS. We pay taxes on that amount; yes, sir.

The CHAIRMAN. Then my statement was inaccurate, in the sense that that is the largest profit made except in the years 1916 and 1917, and 1929, in the history of the steel corporation; is that a correct statement?

Mr. FAIRLESS. I would have to check these, but of course, as I have mentioned, I will be very happy to give you, to be made a part of the record, the actual financial story of the United States Steel Corp. from 1902 to 1947, inclusive.

The CHAIRMAN. I have that here. Is that the same as that which appears in the annual report of the United States Steel Corp.?

Mr. FAIRLESS. That is right.

Senator O'MAHONEY. In connection with that bit of evidence, may I ask Mr. Fairless whether the statement shows the profits after taxes for these respective years?

Mr. FAIRLESS. That is what it is.

Senator O'MAHONEY. It shows that?

Mr. FAIRLESS. Yes.

Senator O'MAHONEY. For all of these years?

Mr. FAIRLESS. It is the complete history of the steel company.

Senator O'MAHONEY. Does it also show your pay roll for those years?

Mr. FAIRLESS. Yes; that is right.

Senator O'MAHONEY. So that will all be in the record?

Mr. FAIRLESS. Yes, sir.

(The data referred to are as follows:)

United States Steel's operating story, 1902–46

[In thousands of net tons]

Year of operation	Total ores mined	Total fluxes produced	Total coal mined	Total coke produced	Total iron produced	Ingots and castings		Finished steel shipped	Average number of employees
						Total production	Percent capacity operated		
1902	17,991	1,471	13,813	9,522	8,933	10,920	97.2	8,913	168,127
1903	17,207	1,421	12,660	8,658	8,153	10,275	81.8	8,129	167,709
1904	11,763	1,560	13,718	8,652	8,254	9,422	72.8	7,325	147,343
1905	20,705	2,203	17,228	12,243	11,393	13,447	93.2	10,142	180,158
1906	23,123	2,495	18,533	13,295	12,619	15,153	100.6	11,254	202,457
1907	26,858	3,585	24,279	13,545	12,794	14,944	88.6	11,511	210,180
1908	18,662	2,448	15,799	8,170	7,767	8,779	50.3	6,820	165,211
1909	26,243	3,916	23,790	13,590	13,013	14,958	77.8	10,612	195,500
1910	28,275	5,606	26,365	13,650	13,251	15,881	79.5	11,777	218,435
1911	22,326	5,416	24,326	12,120	12,034	14,284	70.5	10,340	196,888
1912	29,600	6,859	30,639	16,719	15,889	18,929	89.8	13,771	221,025
1913	32,187	7,099	30,787	16,663	15,770	18,655	90.1	13,387	228,906
1914	19,079	5,238	21,162	11,714	11,259	13,246	62.3	9,935	179,353
1915	26,510	6,491	26,628	14,501	15,278	18,342	85.2	12,826	191,126
1916	37,358	7,866	32,768	18,902	19,721	23,420	100.6	17,105	252,668
1917	35,596	7,274	31,497	17,462	17,531	22,719	91.9	16,919	268,058
1918	31,733	5,758	31,748	17,758	17,854	21,934	88.2	15,570	268,710
1919	28,474	6,536	28,893	15,464	15,274	19,264	77.0	13,470	252,106
1920	30,264	6,699	30,828	16,208	16,277	21,591	86.2	15,534	268,004
1921	18,646	5,160	21,628	9,825	9,720	12,282	48.3	8,758	191,700
1922	24,392	6,309	23,293	13,237	13,470	18,012	70.9	13,127	214,931
1923	34,737	7,365	35,290	18,838	18,737	22,770	89.1	15,870	260,786
1924	27,747	5,638	27,738	14,408	14,206	18,456	72.2	12,705	246,753
1925	31,357	5,986	31,476	16,301	16,575	21,167	81.7	14,753	249,833
1926	32,778	6,175	34,295	17,336	17,590	22,743	89.1	15,771	253,199
1927	28,725	5,215	27,430	14,507	15,438	20,705	79.8	14,310	231,549
1928	29,834	16,352	28,691	15,993	17,066	22,518	84.6	15,400	221,702

United States Steel's operating stroy, 1902–46—Continued

[In thousands of net tons]

Year of operation	Total ores mined	Total fluxes produced	Total coal mined	Total coke produced	Total iron produced	Ingots and castings: Total production	Ingots and castings: Percent capacity operated	Finished steel shipped	Average number of employees
1929	34,214	16,535	31,827	17,355	18,463	24,493	90.4	16,813	254,495
1930	27,211	16,365	25,388	13,113	14,289	18,762	67.2	12,798	252,902
1931	15,233	8,595	15,575	7,041	7,864	11,292	37.5	8,399	215,750
1932	4,050	3,587	7,047	2,966	3,498	5,521	17.7	4,324	164,348
1933	9,347	6,060	10,227	4,880	5,629	9,013	29.4	6,354	172,577
1934	11,283	6,769	11,724	5,382	6,174	9,700	31.7	6,501	189,881
1935	12,810	7,842	15,095	7,328	8,307	12,467	40.7	8,086	194,820
1936	21,306	12,031	23,581	12,034	13,501	18,937	63.4	11,905	222,372
1937	34,080	14,696	24,504	14,190	16,171	20,756	71.9	14,098	261,293
1938	12,303	7,818	13,842	7,006	7,632	10,525	36.4	7,316	202,108
1939	24,225	12,852	21,624	12,092	13,656	17,626	61.0	11,707	223,844
1940	34,047	15,730	29,528	16,144	18,367	22,934	82.5	15,014	254,393
1941	43,318	19,176	29,076	18,563	22,321	28,963	96.8	20,417	304,248
1942	52,012	20,864	32,317	19,275	23,496	30,030	98.1	20,615	335,866
1943	51,649	19,478	29,046	19,028	23,660	30,540	97.8	20,148	340,498
1944	49,842	19,208	30,709	20,503	23,445	30,815	94.7	21,052	314,888
1945	47,655	19,030	27,622	18,341	19,648	26,479	82.0	18,410	279,274
1946	37,972	20,874	24,463	15,242	15,853	21,287	72.9	15,182	266,835

NOTE.—Production and shipment data are for all operating subsidiaries and are grouped in broad product classifications. The production data include all production of the materials by the operating subsidiaries and exclude all materials purchased. The item "Total ores mined" includes iron, zinc, and manganese ores. In addition to limestone, dolomite, and fluorspar, "Total fluxes produced" includes cement rock and other similar materials. In addition to pig iron, "Total iron produced" includes production of ferro-alloys. Although Tennessee, Coal, Iron and Raioroad Co. was acquired Nov. 1, 1907, its production and shipments for the entire year are included. Prior to 1929, the full time equivalent rather than the actual number of employes is shown.

United States Steel's financial story, 1902–46

[In millions of dollars]

Year of operation	Products and services sold	Employment costs	Yearly taxes accrued	Products and services bought	Wear and exhaustion	Interest and other costs on debt	Income or loss	Preferred-stock dividend	Common-stock dividend	Reinvested in the business	Total investment	Percent income of investment
1902	423.1	120.5	2.4	160.8	27.8	21.3	90.3	35.7	20.3	34.3	1,462	7.63
1903	398.2	120.8	3.0	164.1	29.3	25.6	55.4	30.4	12.7	12.3	1,505	5.39
1904	324.9	101.0	3.1	142.3	18.2	30.1	30.2	25.2	-------	5.0	1,505	4.01
1905	409.2	128.1	3.6	151.1	28.0	29.8	68.6	25.2	-------	43.4	1,532	6.42
1906	484.0	147.8	4.4	168.7	35.6	29.4	98.1	25.2	10.2	62.7	1,556	8.20
1907	504.4	160.8	5.4	169.1	35.1	29.4	104.6	25.2	10.2	69.2	1,612	8.31
1908	331.6	120.5	5.4	104.9	23.8	31.3	45.7	25.2	10.2	10.3	1,594	4.83
1909	441.1	151.7	8.7	138.4	31.8	31.5	79.0	25.2	20.3	33.5	1,631	6.78
1910	491.8	175.0	9.2	157.1	32.5	30.6	87.4	25.2	25.4	36.8	1,659	7.11
1911	431.7	161.6	9.6	146.3	27.8	31.1	55.3	25.2	25.4	4.7	1,688	5.12
1912	533.9	189.6	9.8	214.3	33.4	32.6	54.2	25.2	25.4	3.6	1,715	5.06
1913	560.8	207.5	13.2	191.6	34.0	33.3	81.2	25.2	25.4	30.6	1,742	6.57
1914	412.2	162.7	12.6	153.7	26.6	33.2	23.4	25.2	15.2	[1] 17.0	1,750	3.24
1915	523.7	177.3	13.6	189.8	34.3	32.8	75.9	25.2	6.4	44.3	1,784	6.09
1916	902.3	263.9	26.6	265.3	43.0	32.0	271.5	25.2	44.5	201.8	1,990	15.25
1917	1,284.6	347.9	252.3	345.9	83.3	31.0	224.2	25.2	91.5	107.5	2,109	12.10
1918	1,344.6	453.0	297.6	339.2	98.8	30.7	125.3	25.2	71.2	28.9	2,174	7.18
1919	1,122.6	479.7	81.6	364.5	89.9	30.1	76.8	25.2	25.4	26.2	2,209	4.84
1920	1,290.6	581.8	76.2	413.6	80.0	29.3	109.7	25.2	25.4	59.1	2,274	6.12
1921	726.0	333.2	37.7	249.9	40.1	28.5	36.6	25.2	25.4	[1] 14.0	2,255	2.89
1922	809.0	323.4	35.8	334.7	47.1	28.4	39.6	25.2	25.4	[1] 11.0	2,242	3.03
1923	1,096.5	470.4	55.1	377.4	56.9	28.0	108.7	25.2	29.2	54.3	2,283	5.99
1924	921.4	443.6	45.3	266.9	53.2	27.3	85.1	25.2	35.6	24.3	2,291	4.90
1925	1,022.0	458.2	50.9	333.6	61.6	27.1	90.6	25.2	35.6	29.8	2,329	5.05
1926	1,082.3	469.3	52.4	346.7	70.4	26.8	116.7	25.2	35.6	55.9	2,333	6.15
1927	960.5	412.7	46.3	323.1	64.4	26.1	87.9	25.2	49.8	12.9	2,325	4.90
1928	1,005.3	402.9	51.0	338.4	73.2	25.7	114.1	25.2	49.8	39.1	2,330	6.01
1929	1,097.4	410.2	55.0	350.0	69.8	14.9	197.5	25.2	63.8	108.5	2,157	9.85
1930	828.4	371.7	48.1	234.8	63.8	5.6	104.4	25.2	60.4	18.8	2,278	4.83
1931	548.7	258.4	34.2	187.2	50.4	5.5	13.0	25.2	37.0	[1] 49.2	2,214	.84

[1] Denotes deficit.

United States Steel's financial story, 1902–46—Continued

[In millions of dollars]

Year of operation	Products and services sold	Employment costs	Yearly taxes accrued	Products and services bought	Wear and exhaustion	Interest and other costs on debt	Income or loss	Preferred-stock dividend	Common-stock dividend	Reinvested in the business	Total investment	Percent income of investment
1932	287.7	138.5	31.7	141.8	41.6	5.3	[1] 71.2	20.7	-------	[1] 91.9	2,110	[1] 3.12
1933	375.0	167.9	31.7	161.4	45.3	5.2	[1] 63.5	7.2	-------	[1] 43.7	2,048	[1] 1.53
1934	420.9	214.8	35.8	140.5	46.4	5.1	[1] 21.7	7.2	-------	[1] 28.9	2,028	[1] .82
1935	539.4	253.9	38.4	191.2	49.8	5.0	1.1	7.2	-------	[1] 6.1	1,753	.35
1936	790.5	339.0	49.6	287.5	59.0	4.9	50.5	50.4	-------	.1	1,760	3.15
1937	1,028.4	447.1	74.6	342.6	64.1	5.1	94.9	58.5	8.7	27.7	1,801	5.56
1938	611.1	294.4	37.5	228.3	50.3	8.3	[1] 7.7	25.2	-------	[1] 32.9	1,632	.03
1939	855.9	386.5	52.2	303.4	63.4	9.3	41.1	25.2	-------	15.9	1,651	3.05
1940	1,079.1	464.3	68.1	358.3	72.6	13.6	102.2	25.2	34.8	42.2	1,653	7.01
1941	1,622.3	628.3	168.6	604.6	98.6	6.0	116.2	25.2	34.8	56.2	1,733	7.05
1942	1,863.0	782.7	201.3	673.4	128.2	6.2	71.2	25.2	34.8	11.2	1,735	4.46
1943	1,972.3	912.9	125.9	730.6	134.0	6.3	62.6	25.2	34.8	2.6	1,750	3.94
1944	2,082.2	957.2	105.8	814.4	139.0	5.0	60.8	25.2	34.8	.8	1,734	3.79
1945	1,747.3	825.5	66.8	670.1	123.4	3.5	58.0	25.2	34.8	[1] 2.0	1,688	3.64
1946	1,496.1	704.5	69.1	560.4	68.7	4.8	88.6	25.2	34.8	28.6	1,684	5.55

[1] Denotes deficit.

NOTE.—The data are in some respects necessarily approximate and are based on the yearly earnings reported annually to stockholders without adjustment for surplus charges and credits except that the years 1942 and 1943 reflect renegotiation settlements made in the succeeding years. For example, taxes are as accrued before adjustments. Estimated additional costs arising out of war in the amount of $25,000,000 in the years 1941 to 1944, inclusive, have been included in products and services bought. The item "Employment costs" includes, in addition to wages and salaries, social security taxes after 1935 and pensions after 1910. The item "Wear and exhaustion" includes amortization of emergency facilities and net loss on sales of plant and equipment, in addition to depletion and depreciation. Income before interest, but after all other charges, was used to determine the percent income of investment.

The CHAIRMAN. We have a very serious problem, and this committee is particularly concerned with it, in this increasing spiral. You suggest that steel merely follows other goods. But is it not true that, whether rightly or wrongly, steel sets a pattern for other industries, or rather, steel is the leader as far as price increases are concerned?

Mr. FAIRLESS. No.

The CHAIRMAN. That certainly is the impression. Do you not think an announcement of an increase of the price of steel has more effect on general demands for wage increases and on general demands for increases in other prices, than that of any other single product?

Mr. FAIRLESS. Of course, it becomes a matter of opinion and judgment, but what I have attempted to do in my statement, and I still hope to be able to do, is to bring out the point that steel prices are increased not because we want the fun of increasing steel prices, but they are increased because of the pressure of higher costs over which we have no control.

The CHAIRMAN. Of course, I have no criticism of your statement that if you are losing money on a product the price ought to be increased, but could that not be met by some decrease in other prices, which would prevent this being considered a general price increase by purchasers of steel?

Mr. FAIRLESS. It is not considered as a general increase in price by people who buy steel and use steel.

The CHAIRMAN. The moral effect on the country certainly has been that now, in spite of the fact that other commodities are breaking, a resumption in the upward trend of prices is being initiated by the steel industry.

Mr. FAIRLESS. I think that is brought about, if it exists—and it may very well exist, you are closer to that than I am—but it has been brought about because it was misunderstood. I think the public generally were led to believe that there had been a general increase in steel prices, which is not true. It is not true.

The CHAIRMAN. That may be so, the increase may not be as large as it was thought to be because it is applied only to certain things, but does that not carry a wider increase in the ultimate cost of practically everything which is made out of steel?

Mr. FAIRLESS. No. I have tried to make that clear.

The CHAIRMAN. Into what kinds of products does semifinished steel go?

Mr. FAIRLESS. Semifinished steel—first of all, if I may take a few minutes, I would like to present the semifinished steel picture from the standpoint of the costs of investment to produce semifinished steel. Of course, everything that we make in finished-steel products begins with semifinished steel. We could take a position, as many steel companies do, that they are not manufacturers of semifinished steel for sale, and they do not sell semifinished steel. They use it in their own business. The United States Steel Corp. today, and all during the war and all during the past 7 or 8 years, could use in its own operation every pound of steel that it makes, that is every pound of steel that it makes, but it chooses to be fair to the many nonintegrated and smaller steel companies who are dependent upon the steel corporation largely, and others within the industry to a smaller extent, to furnish them the semifinished steel so that they in turn could make a sheet or a strip or a cold-finished bar, or the many products that are manufactured from it.

The CHAIRMAN. The only question I had was whether, having to pay $5 more for that steel, all of those people do not have to charge more for every product that they sell.

Mr. FAIRLESS. They do not.

The CHAIRMAN. Why not? You yourself say that the increase in costs and material to the United States Steel forces an increase in price, and why does it not have the same effect on the people who buy it and people who have to buy your semifinished steel?

Mr. FAIRLESS. I am not here to nor would I indulge in an attack on profits of other people, but I believe if you or any member of this committee would take the time to analyze the annual reports of some of these companies who buy this semifinished steel, you will find that their profits are much greater than 6 percent on sales, which is all that the steel corporation gets.

The CHAIRMAN. That may be; but also, it seems to me, your own argument proves that in the long run your increased price must bring increases in prices of finished products. Surely you cannot deny that. That is the whole tenor of your statement. I do not know how large an increase, but it must bring an increase.

Mr. FAIRLESS. On the other hand, Mr. Chairman, you take sheets—sheets is a good example that we are all interested in, because the sheets go into the manufacture of so many products.

The CHAIRMAN. And automobiles?

Mr. FAIRLESS. That is a large volume. You don't think that the present or current increase in the price of semifinished steel is going to increase the price of sheets, do you?

The CHAIRMAN. I do not know.

Mr. FAIRLESS. I tell you that it is not.

The CHAIRMAN. Why not, ultimately? You say that any increase in cost is reflected in price; you say that, and you lay that down in your statement. Surely you cannot deny that it is applied to other industry when you say it is true as to United States Steel. It must increase the price of products ultimately.

Mr. FAIRLESS. Well, to begin with, we are not going to raise the price of sheets, and from a competitive standpoint I do not think that it would be possible.

The CHAIRMAN. Competition is based on the price, if there is competition; it is based on a price getting down to costs, plus a reasonable profit. And those costs, therefore, sooner or later must affect the price of the finished product. I do not see how you can escape that.

The thing that concerns me is that at a time when all industrial concerns had been requested by the President and by reports of the Congress to withhold all possible increases in price, one of the leading industries of the country comes out and makes an increase in price, when their over-all profit situation is not one of which they can properly complain. That is the criticism that has been made, and I do not see why it is not a justified criticism.

Mr. FAIRLESS. The criticism is from the standpoint of timing, but——

The CHAIRMAN. I do not know what timing has to do with it. If the profits decrease the arguments decrease; but as long as the profits continue, I do not see what timing has to do with it, particularly, until of course finally we get down to strictly a case where there is no longer a completely seller's market and we get back to a stable price condition; and then, of course, probably competition will take care of it. But today that is hardly the fact.

Mr. FAIRLESS. It would not take care of advancing the price of steel. In my 30-some years in the steel business, let us take this semifinished steel, which is such a small segment of the entire business. Certainly we could not advance prices during the war, even if we were permitted to do so by the Government. If would have been unpatriotic.

Now we cannot advance prices with full demand for steel, and the purchasers of the material are most anxious to get it and perfectly willing to pay this modest increase in price, and they were not permitted to do it then, and certainly we cannot do it when business is bad and competition is keen. So my question is, when would we or when should we correct inequalities and inequities that exist; when could we do it unless we did it at a time just like this?

The CHAIRMAN. As I suggest, you can decrease other prices, and you do not have to have any other net increase if the profit is enough to take care of it. If you are losing on this, you must be making an awful lot of money on other things, because the total result is very favorable.

Why could it not be accompanied, if you had to make this adjustment, with a reduction which would indicate clearly that there was no net increase in the price of steel?

Mr. FAIRLESS. I have answered that, or attempted to, in my closing paragraph. That is exactly the thing that we want to do, and the thing that we think should be done, but we have got to be assured that costs are not going to continue to go up, because we cannot, Senator, as much as we would like to, decrease selling prices in the face of continuously rising costs.

The CHAIRMAN. Any labor union can say the same thing: "We have got to be insured against an increase in price or we have got to have an increase in wages." That argument can go on indefinitely from all sides at once, and we will never stop increasing the spiral of wages and prices.

Mr. FAIRLESS. Well, what the steel worker is complaining about, and I believe most workers, is the cost of food. He does not eat steel and he does not wear steel, and there is not much steel involved in the house that he lives in. A 5-room house will require, as far as steel from us is concerned, about 2 tons of steel. What do we derive from the sale of the steel to build a 5-room house? About $160.

The CHAIRMAN. Do you not think, Mr. Fairless, that every labor union in the country was encouraged by your action to insist upon more of an increase than they would otherwise have done?

Mr. FAIRLESS. I don't think profits are the guideposts at all for wage-increase demands by union leaders.

The CHAIRMAN. But I say, do you not think that the moral effect of your announcement has been to increase the determination of all labor unions to get more of an increase than they otherwise would seek? That is the difficulty that this thing runs up against.

Mr. FAIRLESS. I do not know whether you are familiar with that——

The CHAIRMAN. That may not be justified. I am only suggesting that that seems to me to have been the inevitable effect of the action of the steel industry.

Mr. FAIRLESS. Well, we are coming next month to our negotiations in steel.

The CHAIRMAN. Yes; I understand that, and I think that you have made them somewhat more difficult for yourself.

Mr. FAIRLESS. I hope not. Steel prices can always be reduced, you know.

The CHAIRMAN. There is one other question, of course. Do you not feel that this has increased the general demand for Government controls in price and allocations?

Mr. FAIRLESS. Well, only because a mountain has been made out of a molehill, in my opinion.

The CHAIRMAN. The Senator from Wyoming will inquire.

Senator O'MAHONEY. I want to find out a little about this molehill about which Mr. Fairless testifies. Your evidence in your prepared statement indicates that this price increase was only on 2,000,000 tons of semifinished steel.

Mr. FAIRLESS. It does not state that at all.

Senator O'MAHONEY. What is the amount on which the increase has been made?

Mr. FAIRLESS. Senator, you will see in my statement that we said that we corrected the prices of structural steel.

Senator O'MAHONEY. What is that again? This is what I was reading, here—it is on page 2 of your statement [reading]:

> Semifinished steel constitutes a small part of our total business. Sales last year by United States Steel of semifinished steel of the kinds covered by the

recent price increases amounted to approximately 2,000,000 tons. These sales represented only 10 percent of the total tonnage of steel products shipped by United States Steel to the public during 1947.

I understood that to mean that the recent price increases which you announced affected only 2,000,000 tons. Did I misread it?

Mr. FAIRLESS. You misread it. If you will turn to page 11 of the statement, in the middle of the paragraph beginning "Suppose you were responsible," you will read:

We applied this same principle in advancing prices of tubular products, and of certain extras on structural steel.

Senator O'MAHONEY. Then you increased prices not only upon these semifinished products—billets, skelp, and the like—but you also increased prices upon tubular products, did you?

Mr. FAIRLESS. That is right.

Senator O'MAHONEY. And also you increased the price on certain extras on structural steel?

Mr. FAIRLESS. That is right.

Senator O'MAHONEY. Now then, with respect to the blooms, billets, and that type of semifinished product, upon what proportion of your production did you increase the price?

Mr. FAIRLESS. Ten percent.

Senator O'MAHONEY. That is 2,000,000 tons?

Mr. FAIRLESS. Well, we shipped a little over 20,000,000 tons in 1947. That is assuming that we will ship the same tonnage, and I do not know whether we will.

Senator O'MAHONEY. Do you wish this committee to understand that you increased the price on only the 2,000,000 out of 20,000,000 tons which were shipped?

Mr. FAIRLESS. No; I do not wish to in any way, Senator, mislead or attempt to mislead this committee.

Senator O'MAHONEY. I did not think so, and I am trying to get it through my head.

Mr. FAIRLESS. The reason that we have placed the emphasis on the semifinished in my statement is because the criticism has been largely based on the semifinished, and we were trying to answer our critics.

Senator O'MAHONEY. It is clear now from your testimony that the United States Steel increased prices not only on the semifinished steel, but also on tubular and also on certain types of structural steel with respect to the extras.

Mr. FAIRLESS. That is right.

Senator O'MAHONEY. What I want to pursue at this moment, however, Mr. Fairless, is the situation which exists with respect to the increase upon the semifinished steel. Do I understand you to have said in your statement that the increase which you announced as of February 19, on that type of steel——

Mr. FAIRLESS. It was February 13.

Senator O'MAHONEY. Well, it came out in the press on February 19. Do I understand you to say that it applied only to 2,000,000 tons? Is that what your statement is?

Mr. FAIRLESS. Oh, no, Senator. The 2,000,000-ton figure, Senator, is the semifinished picture alone.

Senator O'MAHONEY. That is what I say.

Mr. FAIRLESS. Now, would you want the tons on structural and the tons on tubular?

Senator O'MAHONEY. Not at the moment. What I want to do now is confine this discussion to semifinished steel. Your sentence is, and I read it again:

> Semifinished steel constitutes a small part of our total business. Sales last year by United States Steel of semifinished steel of the kinds covered by the recent price increases amounted to approximately 2,000,000 tons.

Now is that not a correct statement?

Mr. FAIRLESS. Certainly.

Senator O'MAHONEY. Now, I want to know how much of that type of steel you produced but did not sell in the market.

Mr. FAIRLESS. We produced, Senator, so as to get the steel picture, you must produce semifinished steel before you produce anything.

Senator O'MAHONEY. I understand that and I want to find out how much of it you produced.

Mr. FAIRLESS. So when we ship 20 million tons of finished steel products, we produced in excess of 20 million tons of semifinished, because we have scrap losses involved in converting from semifinished to finished.

Senator O'MAHONEY. Now, is it not a fact, Mr. Fairless, that some of this semifinished steel which you produce, you sell to nonintegrated companies, and some you use in your own organization?

Mr. FAIRLESS. That is right. Most of it we use in our organization.

Senator O'MAHONEY. What proportion of the amount of semifinished steel that you produce is used by your own organization and its subsidiaries?

Mr. FAIRLESS. Well, I would say about 90 percent.

Senator O'MAHONEY. About 90 percent?

Mr. FAIRLESS. If we sell 10, we obviously would use 90.

Senator O'MAHONEY. Then do you wish the committee to understand that you increased the price on semifinished steel only on that amount which you sell to your competitors?

Mr. FAIRLESS. I do not see how we can increase the price, Senator, on something we do not sell. We sell the difference, and I am sure that you must get it, and the rest of the semifinished we use ourselves. We sell it in the form of a sheet or strip or a bar or a plate. We do not sell it as semifinished.

Senator O'MAHONEY. Is the price of that product increased as a result of this increase?

Mr. FAIRLESS. No.

Senator O'MAHONEY. So you wish the committee to understand that so far as this 90 percent of the semifinished steel which you use yourselves is concerned, you do not intend to pass this increase of $5 or $6 a ton on to the public?

Mr. FAIRLESS. Except that which is involved in this correction of the equities on structural steel and tubular products.

Senator O'MAHONEY. Including the tubular goods?

Mr. FAIRLESS. That is all.

Senator O'MAHONEY. Now, then, the picture is that so far as this price increase is concerned, it does not affect the business of the United States Steel and its subsidiaries, so far as price is concerned, is that right?

Mr. FAIRLESS. Beyond that which is indicated.

Senator O'MAHONEY. Beyond tubular and extras on structural, is that correct, sir? I want you to say "Yes" if that is what you mean because I want this very definite and clear.

Mr. FAIRLESS. I do not answer questions just the way you might want me to answer them. I answer them as I see that they should be answered.

Senator O'MAHONEY. I want you to answer "Yes" if you can answer "Yes" and if that is what you mean. Will the reporter please ask the witness the question?

Mr. RICH. It seems to me that the Senator from Wyoming has had his question answered, and after the Senator from Wyoming made this statement it seems to me that he ought to sit back and listen to somebody else. This was in the newspapers here on February 24 [reading]:

> Senator O'Mahoney said legislative action is necessary because it is evident that the Republican-controlled Joint Congressional Economic Committee will allow some of the spokesmen for Big Steel to attempt to whitewash themselves rather than investigate the facts.

Now, it seems to me that you ought to sit idly by and let the Republicans go ahead here for a while and see what is going to happen.

Senator O'MAHONEY. I would not dare to do that, Mr. Rich.

Mr. RICH. I think that you ought to.

Senator O'MAHONEY. Will the reporter read the question.

The CHAIRMAN. We will have the question read.

(Thereupon the reporter read the question as follows:)

> Now, then, the picture is that so far as this price increase is concerned, it does not affect the business of the United States Steel and its subsidaries, so far as price is concerned; is that right?

Senator O'MAHONEY. That is as far as price on these semifinished products is concerned.

The CHAIRMAN. You mean the semifinished products the United States Steel uses in its own business and then finishes?

Senator O'MAHONEY. Yes.

The CHAIRMAN. You mean, does it affect those products?

Senator O'MAHONEY. Do you push that on to the public? My understanding was that you said that you do not.

Mr. FAIRLESS. Well, I hope that I understand what you are driving at and I think that you could shorten it up by coming directly to your point, whatever it may be. What we have done is this: We have advanced the price on semifinished steel that we sell. How could we advance the price on semifinished steel that we use?

Senator O'MAHONEY. You do not advance the price on the semifinished steel that you use?

Mr. FAIRLESS. That is right. How could we?

Senator O'MAHONEY. Of course, you do it by passing it on to the public.

Mr. FAIRLESS. You cannot increase the price of a potato if you eat it.

Senator O'MAHONEY. You do not pretend to say that you eat the steel that you produce.

Mr. FAIRLESS. We do exactly the same thing.

Senator O'MAHONEY. Do you not pass it on in structural steel and all forms of steel commodities?

Mr. FAIRLESS. If you are trying to get me to make a statement——

Senator O'MAHONEY. I am not trying to trap you, I am just merely asking you a question.

Mr. FAIRLESS. If you are trying to get me to agree with you what this means is a general increase in the price of steel, Senator, it is just not so.

Senator O'MAHONEY. I am not asking you to say this, I am just asking you to say "Yes" or "No" whether you pass this on to the public on the commodities which you make out of these semifinished steels.

Mr. FAIRLESS. No.

The CHAIRMAN. Let me ask you this: Does the Carnegie-Illinois Steel Co. sell to some other different corporation at this increased price? Do they sell the semifinished products to some other one of your subsidiaries or your own organization?

Mr. FAIRLESS. They furnish it to our sister companies and they sell it to to other steel companies.

The CHAIRMAN. And you operate simply as one single business?

Mr. FAIRLESS. And we sell it to our subsidiary companies at the same price that we would sell it to a competing steel company or a nonintegrated steel company.

The CHAIRMAN. Well, they then have higher costs. How many additional tons are involved in this tubular and structural business?

Mr. FAIRLESS. The total tonnage in structural affected is 100,000 tons per month, and the total tonnage affected in tubular products is 130,000 tons per month.

The CHAIRMAN. That is about 3,000,000 tons a year more besides the 2,000,000 tons of semifinished, and you increased the price on about 3,000,000 tons more?

Mr. FAIRLESS. Yes.

The CHAIRMAN. How much was that increased?

Mr. FAIRLESS. I accepted your arithmetic, and I am not sure of the figures.

The CHAIRMAN. That is a very rough calculation.

Senator O'MAHONEY. May I conclude this inquiry?

The CHAIRMAN. I wanted to get the basic facts. What percent was the increase of those? Was that $5 also?

Mr. FAIRLESS. They are varying prices. Now, the money involved, I can give you that figure if that will suffice. The money involved on an annual basis, representing the increase in semifinished, structural and tubing is a total of $28,433,197 before taxes.

The CHAIRMAN. You mean the gross intake is $28,000,000 greater?

Mr. FAIRLESS. Or $17,000,000 after taxes.

The CHAIRMAN. It was $10,000,000 for the semifinished so it is $18,000,000 for the other, or something like that?

Mr. FAIRLESS. It is about $11,000,000, and I would like to give you the picture on tubular products. I think that Mr. Rooney has that statement.

Senator O'MAHONEY. Would you mind holding that back for just a moment, so that I can finish this?

Mr. FAIRLESS. I would like to finish a job when I am on it.

Senator O'MAHONEY. That is why I would like to finish the job on which I was working. Now we go back to the 2 million tons of semifinished, which you sell to the independent users of that product.

Now, do you suppose that those purchasers of your steel will be able to absorb the increase per ton that you have ordered, or will they have to pass it on to the public?

Mr. FAIRLESS. That is a decision which they will have to make for themselves, Senator, but I think that you overlook something, if I may be bold enough to suggest, the real kernel of it.

Senator O'MAHONEY. You are assuming what I am thinking and I merely ask you the questions.

Mr. FAIRLESS. The real kernel of what you are talking about is this: The semifinished steel that we produce, we can use it all and we can use it ourselves. My statement is this: We produced about 28,000,000 tons of ingots last year and the semifinished steel resulting from those ingots is 90 percent, or 92 percent. Now, we can use every ton of that semifinished steel ourselves, and we can make it into sheets, plates, strip, bars and all of the products, tubes and all of the products we make. We can use it all. We have the finishing capacity and we have the business, but we do not do that. We sell a part of it to nonintegrated people in order that they in turn might remain in business. All we are trying to do is really get a new dollar back for an old one. That is what we are trying to do.

Senator O'MAHONEY. Do you remember having testified before the Temporary National Economic Committee back in November of 1939.

Mr. FAIRLESS. I remember some of your statements there, too, Senator.

Senator O'MAHONEY. I hope you do. I think that they are coming back home to roost, now.

Mr. FAIRLESS. Your statements do not read very well today.

Senator O'MAHONEY. Well, now, you and I might disagree about that, Mr. Fairless.

Mr. FAIRLESS. What would have happened had we decreased steel capacity as you asked me to do at that time?

Senator O'MAHONEY. How does this read, and I am reading this from page 10747 of volume 20 of the hearings on steel. Mr. John A. Stapleton, then the assistant to the vice president in charge of the Carnegie-Illinois Steel Corp., in charge of sales, was on the stand, and Mr. Feller, the counsel for the committee in that hearing presented a memorandum which was submitted to the committee, from which I read to Mr. Stapleton the following paragraph, and this was a memorandum which Mr. Stapleton acknowledged having himself written, and it was on the same question of the price of semifinished steel:

> This policy is too specific. We obtain greater sales representation through furnishing semifinished material to nonintegrated units who have selling organizations for the distribution of the finished product. While it is true they are competitive with us, they nevertheless to a large degree are under our control, and were we to discard these accounts the tonnage would be furnished by other steel-producing competitors and our competition on the finished product would simply be increased without our obtaining any portion of the profit by selling to nonintegrated units.

Mr. FAIRLESS. Do you have my answer to that? I would like to hear it.

Senator O'MAHONEY. I have this statement from you, and this appears on page 10744:

> Our pricing policy in respect to semifinished steel is as follows: We attempt at all times to sell users of semifinished steel those products at such prices that

they can convert that steel into finished products and compete in the finished steel market.

Mr. FAIRLESS: That is just as true today as it was then.

Senator O'MAHONEY. And that is why you increased the price, no doubt to make it more easy for them to compete?

Mr. FAIRLESS. To get a new dollar for an old one. You refuse to face the facts.

Senator O'MAHONEY. I beg your pardon. I am asking you to face the facts. You asked me to read your statement and I am reading it.

As a result of that policy, and that has been particularly true during the last 9 years, the price of semifinished steel had got to a point so low that many times we did not get back a new dollar for an old one.

That is the same statement.

Nevertheless, we attempted to, and did, keep our semifinished customers in business, and that is our policy. You appreciate, of course, that while we announce the prices of our finished products and we announce the price of our semifinished steel, we always attempt to keep them in proper relation, and by that I mean so that there will be sufficient spread in the cost of conversion as between the semifinished and the finished product to permit a reasonable profit. However, competitive conditions within the industry sometimes, and many times, are so great that our published prices in respect to the finished products cannot be realized, either by us or by customers we serve in respect to semifinished steel. We are in constant contact with those customers. They come to us with their problems, and it is our policy to make adjustments in respect to the semifinished price to them, even although that does at times result in price at dollars per ton below our officially announced prices of semifinished steel. Still we pursue that policy and try to keep our customers in business.

Do I understand from that statement, Mr. Fairless, that it was your practice at that time, and that it will continue to be your practice, to discuss with your customers the relationship between prices, which I take to mean the final price which they shall pay and charge to their customers?

Mr. FAIRLESS. No.

Senator O'MAHONEY. You do not intend to do that?

Mr. FAIRLESS. We know the steel business, just like you know your business.

Senator O'MAHONEY. Thank you for that compliment.

Mr. FAIRLESS. We know the proper relationship between the price of semifinished steel and the resultant selling price of the finished product. We know from our own experience.

Senator O'MAHONEY. I submit to you, Mr. Fairless, that Mr. Stapleton of your organization told this TNEC Committee that your pricing policy with respect to semifinished steel at that time was designed to maintain control of these competitors.

Mr. FAIRLESS. Oh, no.

Senator O'MAHONEY. That is what he said.

Mr. FAIRLESS. Oh, no; he did not.

Senator O'MAHONEY. I am not going to argue the question. Let the record speak for itself. And your testimony was that you discussed prices with your customers who were your competitors.

My point is this: the record, as you seem to make it this morning, would indicate that so far as 90 percent of your semifinished steel is concerned, you do not intend to pass this increase on to the general public upon the products that you and your organization manufacture, but that you believe that these independents may have to do so. I ask you, is that not a squeeze on the independent?

Mr. FAIRLESS. Well, those companies will have to, of course, speak for themselves. I do not speak for the steel industry. And I do not agree with the impression that you have tried to leave here in reading parts of the testimony. I would be happy some day to review with you the entire TNEC hearings. I don't think that you are too pleased with some parts of it.

Representative RICH. Mr. Fairless, Yesterday I met with representatives of small steel plants from Blossburg, Pa., trying to get steel so that they could keep their plants working up there. They are interested in getting it, and I hope that you will supply them with steel and I hope that all of the steel companies, the little independents that want steel, will be able to get it, because if you do not furnish it, all of these small plants, and especially the ones in my district, are going to be closed down. I hope that you do furnish them steel just as soon as you can, and I will furnish you the names.

Mr. FAIRLESS. That is our policy. I hope that you believe we are doing a good job.

Mr. RICH. I hope you get it out as fast as you can.

Senator O'MAHONEY. I desire to ask a question which is supplementary of one that you, yourself, asked, the relationship between increased prices and increased wages, on the inflationary picture. I have in my hand a paragraph entitled "Inflationary Dangers," which was taken from the letter of Mr. Irving Olds, chairman of the United States Steel to stockholders, and published in the February 1948 issue of United States Steel Quarterly. No doubt you are familiar with that paragraph. This is Mr. Old's statement:

> Everyone now should realize with some degree of accuracy the damaging consequences of the continuing inflationary spiral of the past few years. General wage increases, followed as they inevitably must be by further general price increases to offset such higher employment costs, accomplish nothing of a beneficial nature to anyone in the long run. The increased pay of the worker is soon exhausted by higher prices for almost everything which he has to purchase. The probable economic consequences of a further prolongation of this state of affairs cannot be disregarded. All parties concerned should exhibit statesmanship and wisdom in dealing with this serious problem.

My question to you, Mr. Fairless, is, Would it not be possible to substitute increased prices in this statement for increased wages and would it not be absolutely correct?

Mr. FAIRLESS. Senator, here is what goes on, or what did go on with our 1947 dollar. We paid 42.6 percent of it to our employees in the form of wages and salaries. We paid 39.6 percent of that dollar to the people that we buy from, the products and services rendered. We provided 5.4 percent of that dollar for the wear and exhaustion of our facilities. We paid 6.4 percent of that dollar to the Government in the form of taxes. We paid 3.3 percent of that dollar to the owners of the business in the form of dividends. And we reinvested in the business 2.7 percent of the dollar.

Does that answer your question?

Senator O'MAHONEY. My question to you was, Would not Mr. Olds' statement about the unfortunate effect of increased wages on the inflationary spiral be just as correct if, instead of increased wages he had written about increased prices for basic commodities?

Mr. FAIRLESS. Well, I believe Mr. Olds is perfectly capable of answering his own letters, and——

Senator O'MAHONEY. Of course he is, but you are the witness.

Mr. FAIRLESS. So far as we are concerned, the thing that we would like to see happen is very simple. If you sum it up in what we think should happen in the best interests of everybody, including labor, that is that there should be no further wage increases at this time. I am not speaking for the unforeseeable future.

Senator O'MAHONEY. You are not.

Mr. FAIRLESS. And there should not be any further increases in costs of any factor.

Senator O'MAHONEY. You acknowledge, do you not——

Mr. FAIRLESS. Whether that be transportation costs, or government costs of taxes, or what have you.

Senator O'MAHONEY. You acknowledge, do you not——

Mr. FAIRLESS. And also coupled with that there should be a decline in the selling prices of all manufactured articles just as soon as it is practicable to do so.

Senator O'MAHONEY. You acknowledge, do you not——

Mr. FAIRLESS. And I pledge the Steel Corp. to that policy.

Senator O'MAHONEY. You acknowledge, do you not, that profits of the United States Steel after taxes in 1947 were in excess of $126,000,000?

Mr. FAIRLESS. Is what?

Senator O'MAHONEY. Were in excess of $126,000,000.

Mr. FAIRLESS. Yes, sure, about $127,000,000, after providing for the extra depreciation charges that the chairman referred to.

Senator O'MAHONEY. My figures seem short from a hasty examination of the report that you handed me this morning from the United States Steel; they seem to correspond with yours. They indicate that after taxes, profits from 1942 to 1945 ranged from a low of $58,000,000 in 1945, to a high of $88,600,000 in 1946.

I have made a comparison of these profits after taxes with the pay roll as announced by the United States Steel, and that would indicate that the average wage paid from 1942 to 1945 for dollar of profit was $13.21, whereas in 1946 the wage ratio was $7.83 per dollar of profit, and in 1947, $7.02 per dollar of profit. In other words, the ratio of wage dollars to profits of the United States Steel Corp. has been declining substantially.

Mr. FAIRLESS. How about 1940 and 1941, since you are reviewing the financial picture?

Senator O'MAHONEY. Those are the figures which go back to 1942.

Mr. FAIRLESS. We will provide them for you so that you can complete the cycle.

Senator O'MAHONEY. That is right.

Mr. FAIRLESS. Senator, does it not all boil down to this, so far as profits are concerned; I cannot convince you, neither can you me, so far as any new ideas that you have about running a business.

Senator O'MAHONEY. You might be surprised in your powers of persuasion, so far as I am concerned.

Mr. FAIRLESS. Is not this a fact, that last year, 1947, the Steel Corp. did $2,100,000,000 of business; that is what goods and services that we sold and provided for the public amounted to, and on that we made a return of 6 percent. Is that not a fact? Is 6 percent a fair return, the question must be, for a corporation to make on its business?

Senator O'MAHONEY. Of course, Mr. Fairless, that goes back to the old story of how much actual money was put into the common stock of United States Steel, but that is an utterly different question. What we are discussing now is inflation and its effect upon the people, and what a great basic industry like steel should do with it.

I have examined the list of directors of the United States Steel, and I noted that you have an interlocking situation with railroads, banks, insurance companies, the assets of which by their own figures from financial journals amount to more than $34,000,000,000. Representatives of Morgan and the First National Bank are on your board.

Mr. FAIRLESS. That is right, and proud of it, too, very able gentlemen.

Senator O'MAHONEY. Did those gentlemen agree to this increase, may I ask?

Mr. FAIRLESS. No.

Senator O'MAHONEY. Did they know about this increase?

Mr. FAIRLESS. No; this particular adjustment was so minor in character that it was not even discussed.

Senator O'MAHONEY. Did they know about the increase of the price of tubular steel?

Mr. FAIRLESS. I am talking about this entire situation, these prices.

Senator O'MAHONEY. Do they know about the other?

Mr. RICH. Let him answer the question.

Mr. FAIRLESS. Do you want me to answer two or three times. I will answer it. I want to be courteous to you, Senator.

My statement is that the board of directors of the United States Steel Corp. did not pass on the adjustments in prices that were made on February 12 and 13, which is the cause of these hearings.

Senator O'MAHONEY. May I say to you, Mr. Fairless, that I have in my office a letter from a steel manufacturer, a small manufacturer, who suggested that this committee should look into the extras charged by United States Steel. He told me about these extra prices, how they vary according to quality and according to size, and how from his point of view they result in greatly increasing cost to the independent, and then he ended his letter with this sentence, "Please don't use my name."

Would you be good enough to tell the committee, as you were about to do a little while ago when I interrupted you, perhaps too rudely, about the increase in the price of tubular, and tell us about this extra pricing system?

Mr. FAIRLESS. Well, how much detail do you want? I would be very happy——

Senator O'MAHONEY. As much as the committee will stand for, Mr. Fairless.

Mr. FAIRLESS. If you would like an education in the price structure of steel, why——

Senator FLANDERS. Mr. Chairman, I would suggest that we first get from the witness the total tonnage involved in these other two amounts, and the total dollars involved in that tonnage.

The CHAIRMAN. Together.

Mr. FAIRLESS. It has already been given. I will repeat it.

The CHAIRMAN. Together with what it means in the increased profit of the corporation. You started to give that, and I interrupted you.

Mr. FAIRLESS. It depends upon our cost, the increase, and for example, we increased the price of skelp, and so this does not represent profit in total. If you assume that we will ship the same amount of semifinished steel in 1948 as we did in 1947, and if you assume the same in respect to structural and tubular products, the increased revenue to the Steel Corporation, not necessarily increased profits, but the increased revenue, will amount to $28,433,197 in those three products.

The tonnage involved is about 5,000,000 tons total.

The CHAIRMAN. That includes the semifinished.

Mr. FAIRLESS. Includes that, yes; the three products, and those are the only three products there was any price adjustment in at that time.

The CHAIRMAN. And assuming other things being equal, that would mean an increase of profit of 62 percent of that after taxes, or $17,000-000.

Mr. FAIRLESS. No. To begin with, our taxes, we are on a consolidated basis, so our taxes are computed 40 percent instead of 38, and also you must realize, Senator, I tried to make it clear, that these increases will not wipe out the losses completely.

The CHAIRMAN. I quite understand that, but the point is this, that as compared to the prices, as compared to leaving prices alone, the increase in price would mean an increase in profit of the Steel Corp. of $16,800,000.

Mr. FAIRLESS. Increase in income.

The CHAIRMAN. Approximately $17,000,000.

Mr. FAIRLESS. In income.

The CHAIRMAN. Increase in profit.

Mr. FAIRLESS. Assuming, of course, that the costs are not further increasing.

The CHAIRMAN. No; that is taken care of by comparing it with what it would have been if you had not increased the price.

Mr. FAIRLESS. Oh, yes; I agree with that.

Mr. WOLCOTT. While we are on that subject, I wonder if Mr. Fairless could carry through on that, and tell us how that would be reflected in the income per share of the common stock.

Mr. FAIRLESS. In what?

Mr. WOLCOTT. Income per share of common stock.

Mr. FAIRLESS. Common stock? Well, we have 8,700,000 some shares of common stock.

Mr. WOLCOTT. The figures that I have here show $11.66.

Mr. FAIRLESS. That is outstanding stock?

Mr. WOLCOTT. Per share of common stock in 1947. How much would that be increased by your profits incident to the price increase?

Mr. FAIRLESS. Of course, I wish this business cycle worked out just that way, but it does not, Senator, after taxes——

Mr. WOLCOTT. I am not a Senator.

Mr. FAIRLESS. Mr. Wolcott from Michigan, I believe.

Mr. WOLCOTT. Yes.

Mr. FAIRLESS. $17,000,000 divided by 8¾ million shares; that is what it is.

Mr. WOLCOTT. I am not a good enough mathematician to figure that out.

Mr. FAIRLESS. It would be under $2 a share, if you approach it from that standpoint.

Mr. WOLCOTT. About $2 a share.

Mr. FAIRLESS. Yes. It would be less than that.

Mr. WOLCOTT. Of course, that is after taxes.

Mr. FAIRLESS. After taxes.

Senator FLANDERS. Mr. Fairless, in doing some simple arithmetic on your figures as to all of the price changes you have made, I come out this way: $5 per ton on 2,000,000 tons of semifinished amounts to $10,000,000, roughly speaking, and again roughly speaking, $6 per ton on 3,000,000 tons of tubular, and excess of structurals amounting to $18,000,000. It appears that most of the excitement and publicity has been on the smaller element of the two, and that on the goods which go to ultimate products which you sell to users, the increase has really been larger than it has on the semifinished stuff, both in dollars per ton——

Mr. FAIRLESS. In total.

Senator FLANDERS. And in the amount of tonnage, and in the total.

Mr. FAIRLESS. Senator, the largest single item is semifinished, but if you combine the other two and compare it with semifinished, of course, then they become the larger, but the largest single item is still semifinished.

Senator FLANDERS. Yes. I would like at this point, instead of questioning you, to make an observation, and that is with reference to your point No. 5 on the first page:

> United States Steel is a victim of inflation and not the cause of it. Steel prices as a whole have lagged far behind the prices of other commodities. United States Steel cannot fairly be made the scapegoat for the nation's economic ills.

That is a statement which I think a great many business organizations, a great many labor unions, a great many other groups of people engaged in the business of the country, can make and can make honestly. The fact remains, however, that every victim is a cause as well as an effect.

It is unfortunate, to my mind, for the U. S. Steel, and for the steel industry as a whole, that it is so big. The misfortune lies so far as the individuals concerned with its direction are concerned, in the fact that it is in an enormous goldfish bowl, and is plainly seen by everyone.

But the real question it seems to me is not so much that question of visibility as it is the question of its intimate connection with the whole business of the country. I just wanted to conclude this brief observation by saying what I have written to Mr. Olds, and what I think I have said to you before, that the Steel Corp., by virtue both of its size and its tremendous influence on so many other industries, by direct influence through the purchase and sale of its products, and by the fact that it stands as a symbol, is looked to for leadership. It finds itself perhaps, from your standpoint, unfortunate, but from the standpoint of the rest of the country, the very important position of having to make its private decisions in large measure based on public policy and on long range results for the country as a whole. That is unfortunate, but I think it is inescapable.

Mr. FAIRLESS. That is right.

Senator FLANDERS. And I trust that one of the results of this hearing will be that we will all agree that that is the case.

Mr. FAIRLESS. I do agree. We try to so conduct our business.

The CHAIRMAN. Just one question, Mr. Fairless. The index of the Bureau of Labor Statistics shows that before this increase that we have been discussing, there had been a series of increases in many products throughout the month of January. Can you give us any light on that question?

I notice this list shows increases in the price of rivets, tin plate——

Mr. FAIRLESS. Some of those products——

The CHAIRMAN. And barbed wire and fence wire and wire nails, angle bars, and files, all in the month of January.

Mr. FAIRLESS. Of course, a great many of those products we do not manufacture, and the tin plate picture which is the substantial part of what you refer to, I would like to give you the story, the history of that product.

In December of each year we name a price for tin plate that holds good for the entire ensuing year. In other words, last December we named a price on tin plate that can be no higher. It could be lower, but can be no higher during the year 1948.

Therefore, tin plate in 1947 could not recoup any of the additions to its costs by the labor and other costs. So in December we considered our costs which included a substantial increase in price of pig tin over which we have of course no control. I gave you the comparison there, pig tin $1,000 a ton in 1940; it is now $1,900 per ton.

So we named a price for tin plate for the year 1948 announced in December, the price to become effective in January, and it is good throughout the year, irrespective of what happens.

The CHAIRMAN. That was an increase of 19.7 percent over last year, is that right?

Mr. RICH. Did you cover all of your requirements for tin plate for the year?

Mr. FAIRLESS. No, we cannot.

Mr. RICH. How can you guarantee a price, then?

Mr. FAIRLESS. We took the chance; we took that chance, and the tin-plate business has always been handled on that basis, and it is built up because the can manufacturer has to supply the packers with cans throughout the year, to pack peas up in Wisconsin in one season of the year, and pack the same product down in Florida in another season of the year. So therefore the price of cans must be uniform throughout the year, to the people who are competing. So it all adds up that we always, ever since I have been in the business, name the price on tin plate that is good throughout the year.

If something very unusual happens, and it has happened several times, where we have a material drop in the price of pig tin or in some other cost factors, then we have reduced the cost of tin plate, but never have increased it.

Mr. RICH. If you do not cover on your tin requirements and the cost advances from $1,000 to $1,900 per ton for tin, how are you going to know whether you are going to manufacture at a profit or take a loss?

Mr. FAIRLESS. One of the hazards of the business that we are in.

Mr. RICH. And the steel companies take that chance?

Mr. FAIRLESS. Yes.

The CHAIRMAN. However, the price of tin is controlled by the Government today, and quite a large stock on hand, so the increase would probably be slow.

Mr. FAIRLESS. We hope so. It has already gone up 10 cents a pound, Senator, since we named our price.

The CHAIRMAN. Since the price was set in January?

Mr. FAIRLESS. That is right. So it has gone up from 80 to 90 cents a pound since last December.

The CHAIRMAN. Is that by the British increase?

Mr. FAIRLESS. Yes.

The CHAIRMAN. In Malaya, the cartel there?

Mr. FAIRLESS. Yes; that is right.

The CHAIRMAN. Are there other questions?

Mr. RICH. I would like to ask him some questions, Mr. Chairman.

The CHAIRMAN. Mr. Rich.

Mr. RICH. Mr. Fairless, did you join with other steel mills in setting this price of $5 a ton?

Mr. FAIRLESS. No, no.

Mr. RICH. Did you in any way communicate with any of the steel companies?

Mr. FAIRLESS. No, sir.

Mr. RICH. In connection with this price?

Mr. FAIRLESS. No, sir.

Mr. RICH. I see here from this report given here by the United States Steel Corp. and its subsidiaries, you earned per common share before reserves, $14.40, and after reserves $11.66.

Will you explain what you mean by "before reserves" and "after reserves"?

Mr. FAIRLESS. The explanation is this, that due to the higher costs in the period we are now in, and have been in for some time, the amount of depreciation allowed for tax deductions by the Treasury Department is not sufficient by a long ways to permit us to replace the facilities that are being worn out, and the raw materials which are being used, so therefore on the basis of good accounting and correct handling of our affairs, our financial department provides an additional amount of about $26,000,000 to the reserves, to depletion and depreciation reserves, which are allowed for tax-purpose deductions by the Treasury Department.

Mr. RICH. In other words, then, as the cost of the replacement value of your equipment, you took into consideration in making that reserve—

Mr. FAIRLESS. Partly; not completely. Our reserve for depreciation and depletion amounts to about $87,000,000, and we spent in 1947 more than $200,000,000 in replacements and betterments of our facilities. We are scheduled to spend in the year 1948, $275,000,000.

Mr. RICH. And that is because the Government is anxious for the steel industry in this country to increase their production in order that we might meet the needs of the day.

Mr. FAIRLESS. That is right, and we are doing it irrespective of costs, although we know, at least we feel that eventually these higher costs will come down. We hope they will. We believe they will, and we certainly think they should.

But in spite of that, we are not waiting for that better time to come. We are going right ahead and providing these facilities which we feel are so sorely needed by this country and the world at large.

Mr. RICH. Since you have earned 6 percent on your sales dollar, and you have earned $11.66 after reserves per share on 8,700,000 shares, the question was asked a while ago by the Senator from Wyoming, why pay extra dividends?

Have you not got a section in the Internal Revenue Code 102 requiring you to pay dividends up to 70 percent of your earnings, or use them in betterment of your equipment? If you do not, the Government then will take 27½ percent of your income?

Mr. FAIRLESS. Unfortunately I am not familiar with that phase, but rather for this committee to be under the impression that we declared an extra dividend, I should like to correct that impression.

What we did was increase our dividend from 4 percent to 5 percent. We have been paying our stockholders on the basis of a dollar per quarter, and we increased that to $1.25 per quarter, so there was no extra dividend.

Mr. RICH. Over the last 10 or 15 years, then, what is the average rate of dividend paid by your company, since 1930? What has been the average rate of dividend paid by your company to your stockholders?

Mr. FAIRLESS. It certainly would not average 3 percent. It would be less than 2 percent.

Mr. RICH. It would be less than 2 percent?

Mr. FAIRLESS. Our stockholders, and of course they also are affected by this inflationary spiral, but they have not been, we have not been able to be overgenerous with our stockholders.

Mr. RICH. You have not treated your stockholders right if you have not given them over 3 percent on the investment.

Mr. FAIRLESS. That is true. That is true. The only reason we did not treat them properly was because we did not have the revenue and the income and the profits to do it. It was not a lack of desire.

Mr. RICH. It seems to me that you are liable to be voted out of the company pretty soon if you do not take care of your stockholders.

Mr. FAIRLESS. It could happen any time.

Senator O'MAHONEY. What is the difference between an extra dividend and a special dividend? I ask you that question because I want to read from the release of the United States Steel Corp., dated Tuesday, October 28, 1947. This was given out by John Munhall III, the same gentleman whose name is on the head of your copies of your statement this morning, reporting the earnings of United States Steel Corp. for the third quarter of 1947:

> Irving S. Olds, chairman, announced that the directors had today declared a quarterly dividend of $1.75 per share on the preferred stock, payable November 20, 1947, to stockholders of record as of November 3, 1947, and a dividend of $1.25 per share on the common stock, together with a special dividend of 75 cents per share on the common stock, both payable December 10, 1947, to stockholders of record as of November 7, 1947.

Mr. FAIRLESS. We paid the 75 cents, Senator, as you refer to, as an extra in order to put the common-stock holder on a $5 basis for the entire year.

Senator O'MAHONEY. Do you not think I was justified in calling it an extra when you called it a special dividend?

Mr. FAIRLESS. As you have it, we are on a $5 basis. In other words, we increased the earnings of our owners 20 percent, and we increased the wages of our workers and our salaried people 80 percent. That is the comparison.

Mr. RICH. What is the preferred stock of the United States Steel Corp.? What is the rate that you are supposed to pay your preferred stock?

Mr. FAIRLESS. That is market value, I believe, the comparison you are making there.

Mr. RICH. That is right. Do you have any guaranty of dividends on your common stock?

Mr. FAIRLESS. No.

Mr. RICH. So that you pay them in accordance with your earnings, and what money you have, you give them, and they have to take the chances on whether you earn or whether you do not. In bad years what do you pay them when you have a loss?

Mr. FAIRLESS. They received $1 a share from 1931 to 1939, inclusive; that is what they received.

Mr. RICH. Do you have any trouble in securing capital to operate your business, or contemplate any additional stock sales?

Mr. FAIRLESS. We have not any to announce this morning, but I would say if we keep on spending money at the rate we are, and our earnings are no greater than they are, we may be right in that position in the money market.

Mr. RICH. If you did, whenever you are earning and paying dividends, you do not have any difficulty in selling your stock, but when you are not earning money, do you have any, do you find any people that want to invest money in a corporation that is not earning?

Mr. FAIRLESS. That is right; that is right. It is the history of the steel business that it has not been a satisfactory earner, I am sorry to say.

Mr. RICH. In reference to these small steel companies that you are furnishing with billets, you are going to try to take care of those smaller companies that are going to be closed down if they cannot get additional steel?

Mr. FAIRLESS. We are doing that every day. We expect to continue.

Mr. RICH. And you do not intend to increase your own production until you are able to take care of so far as possible those smaller concerns that are depending upon your company and other steel companies in order to get it?

Mr. FAIRLESS. That is right. We have done that continuously throughout this period.

Mr. RICH. We congratulate you in trying to look out for the little fellow. It is about time that these big steel companies do help look after the little fellows, because the little fellows in this country are in pretty bad shape, and unless somebody helps them out, they will be closed down. We should like to congratulate you on that.

The CHAIRMAN. Senator Tobey asks permission to ask some questions.

Senator TOBEY. Mr. Chairman, I think Mr. Fairless in talking with you on the matter of the inflationary spiral, as to wages and prices, that you made the statement something akin to this, and you will contradict me if I am wrong. You said you believed that labor's increased demands should not be based on increased profits. Is that your statement or the import of it?

Mr. FAIRLESS. I say they should not be. I also said they were not.

Senator TOBEY. Let me put the question in another way, and I do this in all kindness, with all respect to your credibility and the fine concern that you represent.

Suppose Ben Fairless was not the president of the United States Steel, but instead he was in over-all and dungarees as one of the teeming hundreds of thousands of steel workers in the steel plants of this country, and suppose he, in his intelligence, and they are intelligent, saw that the earnings of the company which he represented and worked for, were $11.66 a share after provisions for reserves, and saw that the profits were 126 or 127 million dollars for the year. Would not Ben Fairless as a steel worker—in my judgment I think he would—would he not hold in his heart the theory that "I and my colleagues are major factors in the production of this steel, which is being sold, which makes this immense profit, I am glad they are making it, but because we are a tremendous factor in the production of this steel, are we not justified in asking for an increased increment to ourselves, to help ourselves against the higher cost of living"?

That is the question, sir.

Mr. FAIRLESS. Well, I have been a steel worker. I have not always been head of the steel corporation. I have gone through the line. I have operated open-hearth furnaces, and finishing mills, and I have been a laborer superintendent. I have gone through this whole gamut of what you refer to.

No. 1, I am highly in favor of high wages, the best wages we can afford to pay as a Nation, and of course that is exactly what we are doing.

And then I tell you that I am not in favor of increasing wages at this time. I only made that suggestion, I believe it is in the best interests of Ben Fairless, if he were back firing an open-hearth furnace or running a labor gang in the steel plant yards, as he did, as he has, not to want a wage increase at this time.

So far as the profits of the steel corporation, I think that we have to consider more than the ability just to pay wages from profits. How about the $275,000,000 bill that we are going to be forced to pay, and rightfully so, to keep our facilities up to date? I think that means something to the Ben Fairless that is out in the steel plant.

Senator TOBEY. I think so, too, but I think you missed my point, and I may repeat that your statement was, as I remember it, and I wrote it down, that labor's increased demands should not be based on increased profits, and I submit that speaking as an individual for the working people, trying to have an understanding heart, that if I, and I think if you, were, too, back there in that, working there, you would feel when the indices showed the tremendous earnings per share of stock and the tremendous volume of profit, after reserves, you would feel increased labor demands might well be made at a time like that, because you produced those goods in large part yourself, one of the three major factors in the production of steel.

As to the timing of that thing, I quite agree with you. I hope they will not come. I hope we can stop this whole inflationary spiral. But I think your premises are wrong, and therefore your conclusions, when you stated that increased demands of labor should not be based on increased profits. I do not know how else a man would expect to get more money unless he knows the concern is making it. That is my point.

Mr. FAIRLESS. That is a long subject.

Senator TOBEY. It is.

The CHAIRMAN. Is not the whole thing a psychological question? I mean that is the difficulty with this inflation thing. It is largely psychological. If everybody would stop at the same time perhaps the whole thing would stop, and with this drop in the prices of commodities, I hoped we might look for fairly stable price and wage levels again.

I only feel that the action of the Steel Corporation has rather decreased that hope. That is the reason I am inclined to be critical of that action.

Senator MYERS. Mr. Fairless, I understand that all of the steel you produce is semifinished steel, either sold as semifinished, or you go on and finish the steel; is that not so?

Mr. FAIRLESS. That is right.

Senator MYERS. And that 10 percent of that semifinished steel is sold as semifinished. I think you testified to that effect.

Mr. FAIRLESS. That is true.

Senator MYERS. That 90 percent of the semifinished steel, U. S. Steel finishes and sells as steel. It costs you just as much to produce the 90 percent as it does the 10 percent.

Mr. FAIRLESS. Certainly.

Senator MYERS. Then why is it that the price increase only applies to the 10 percent and does not apply to the 90 percent, because you have to increase the price of that just as much as the 10 percent.

Mr. FAIRLESS. Because we do not sell the 90 percent.

Senator MYERS. You eventually sell it.

Mr. FAIRLESS. We sell it in the form of a finished product.

Senator MYERS. And it costs you just as much to produce that 90 percent, which you then go on and process as finished steel, it costs you just as much to produce that 90 percent, does it not? You do not sell it as finished steel, I understand, but you produce it as semifinished, and then you go on and process it further, and it costs you just as much to make that 90 percent as it does the 10 percent, does it not?

Mr. FAIRLESS. Well, that is a long subject.

Senator MYERS. Everything has been a long subject. I think that would be.

Mr. FAIRLESS. If I were to answer your question, Senator, 100 percent accurate, that is not true. In other words, we do conditioning on semifinished steel that we sell to the trade that we do not perform for ourselves, so to be 100 percent accurate, although I waive it, because I am not trying to be technical, I will go along with you, that our costs are just the same on the 90 percent as on the 10 percent.

Senator MYERS. I do not want you to go along, particularly, but I mean generally that is so.

Mr. FAIRLESS. All right.

Senator MYERS. Therefore, I take it that you absorb the increased cost on that 90 percent. You absorb that and do not pass that along to those who buy your finished steel products.

Mr. FAIRLESS. We have not passed it along.

The CHAIRMAN. You mean some of the finished steel products, sheets, but you have passed it on in tubes and structural steel.

Mr. FAIRLESS. There are other reasons for that, for the increase in tubular.

The CHAIRMAN. There are many reasons for it, but that is the way it looks when you get through, is it not?

Mr. FAIRLESS. The semifinished picture, the tube picture are not related. They are two separate situations.

The CHAIRMAN. Does not the tube material go through the semifinished process?

Mr. FAIRLESS. In our own company, Senator, we have a company that makes nothing but tubular products, does not make anything else. Carnegie Illinois Steel Corp., for example, does not make any tubular products.

The CHAIRMAN. But there is a point at which it is semifinished steel.

Mr. FAIRLESS. Yes; but it is a different type of semifinished steel to make tubular oil-company goods, and so forth, than to make the sheets.

The CHAIRMAN. In the case of sheets, you have taken the cost analysis of your business, and you will now show a profit on the sale. I mean, let me say, the semifinished steel department will now be running at a profit, but there will be less profit assigned now to the sheets, I take it. Is that correct, if you tried to analyze the cost of the business?

Mr. FAIRLESS. It does not affect the costs. In other words, when we were selling semifinished steel at a loss, as we have been, those losses were not reflected in the selling price of our finished products. They were reflected in the semifinished activity in itself. They were reflected in the over-all picture, of course.

Senator MYERS. Getting back to my other question, then, in effect you do absorb the losses in that 90 percent, and pick up a profit between the semifinished steel and the finished steel.

Mr. FAIRLESS. That is right. We attempt to make a fair profit, Senator, on every pound of steel we sell. We are making no apologies for that.

Senator MYERS. Has it been historical always that you make a profit on every product in the steel business?

Mr. FAIRLESS. No; unfortunately.

Senator MYERS. You always lose on some items historically.

Mr. FAIRLESS. Usually.

Senator MYERS. And you picked that up on other items. You picked up the losses on other items, so you would have a general over-all profit.

Mr. FAIRLESS. That is one way of putting it.

Senator MYERS. You put it your way.

Mr. FAIRLESS. We make a fair profit. We think we do not make anything but a fair profit on every product.

Senator MYERS. I am not questioning that. I am just seeking information. I was just wondering why it is that on 10 percent you must pick up that loss by increasing the price $5 a ton, where on the 90 percent do you not pick it up.

The CHAIRMAN. Are there any other questions?

Senator MYERS. I have not finished yet.

The CHAIRMAN. I thought you made a statement.

Senator MYERS. We will pass from that for the moment.

I understood you to say that in addition to semifinished, Mr. Fairless, you lose money on tubular steel.

Mr. FAIRLESS. On some tubular products we were losing money, and on others——

Senator MYERS. And you lost——.

Mr. FAIRLESS. We were making an unsatisfactory profit.

Senator MYERS. And you lost money on some structural products.

Mr. FAIRLESS. We were not making a satisfactory profit.

Senator MYERS. And you lost money on tin plate?

Mr. FAIRLESS. No. What do you mean now? We did not advance the price of tin plate.

Senator MYERS. Have you been making money on it?

Mr. FAIRLESS. Now?

Senator MYERS. Yes.

Mr. FAIRLESS. Of course we are.

Senator MYERS. Barbed wire, did you?

Mr. FAIRLESS. Barbed wire was very unsatisfactory profit at the time the price was adjusted.

Senator MYERS. Were there any other items where the profit was unsatisfactory?

Mr. FAIRLESS. Many.

Senator MYERS. Where were the items on which you made this $127,000,000 profit, if you lost money, or the profit was so unsatisfactory on all of these items? What were the items on which you made this profit?

Mr. FAIRLESS. Do you appreciate, Senator, I am sure you must, that we make thousands of products, not hundreds, but thousands of them. We have only been discussing here a very small number of steel products.

Senator MYERS. Ten percent, two million tons, 10 percent; you lost money on that. Then you gave us a figure of 3,000,000 tons in addition which took in tubular and structural, I believe. That runs up to over 20 percent, 25 percent of the total tonnage.

Mr. FAIRLESS. That is right.

Senator MYERS. On which you lost money. Are there any other items on which the profit was unsatisfactory or which you produced at a loss?

Mr. FAIRLESS. Many, still many.

Senator MYERS. Twenty-five percent of your production. How much of your production was it on which the profit is unsatisfactory or the product produced at a loss?

Mr. FAIRLESS. I have not those figures available. I can make this statement, that we have no profits that we are making on any product that we are embarrassed with. We have many products on which our profit is entirely too low. It is inadequate. And we have some products, even as we sit here today, on which we are showing a loss.

Senator MYERS. Is it your purpose, Mr. Fairless, to raise the prices of those items?

Mr. FAIRLESS. No; I have already covered that, Senator in my statement.

Senator MYERS. Then we can take it that although you are losing money on other items, that this is the only increase.

Mr. FAIRLESS. That we contemplate.

Senator MYERS. That you contemplate in the immediate future.

Mr. FAIRLESS. At this time.

Senator MYERS. Or for the balance of this year?

Mr. FAIRLESS. Oh; I am not making any commitment for the balance of the year.

Senator MYERS. I do not think you should or could.

Mr. FAIRLESS. No.

Senator MYERS. So as of this moment, you do not contemplate any increased prices.

Mr. FAIRLESS. I will go beyond this moment. I will make the statement the immediate future.

Senator MYERS. In the immediate future.

Mr. Fairless, has there been any attempt or study given to lower prices on these items where the profits may be high in order to make up for these most recent price increases?

In other words, United States Steel is making large profits on many items or most items, and you indicated that about 25 or 30 percent of your items the profit was unsatisfactory.

Mr. FAIRLESS. That is your statement, and not mine.

Senator MYERS. No, No; it is not my statement; 10 percent of your——

Mr. FAIRLESS. You said the steel corporation was making very large profits on certain items.

Senator MYERS. I did not say that at all.

Mr. FAIRLESS. I heard you.

Senator MYERS. Well, I did not mean to say that at the moment. I have not given it that complete study. I said this, Mr. Fairless, and let us not be captious about it, that you yourself have testified that 10 percent of your production was unfinished steel, that your profit margin there was not at all satisfactory, and that that is the reason you have agreed upon this $5 a ton increase, and also that that is 10 percent of your production.

Mr. FAIRLESS. That is right.

Senator MYERS. And then I understood you to say that on 3,000,000 tons of structural steel and tubular steel that you were increasing your price $5 a ton on those items.

Mr. FAIRLESS. I did not say that.

Senator MYERS. I understood you to say that.

Mr. FAIRLESS. I did not say that.

Senator MYERS. What did you say?

Mr. FAIRLESS. We did not increase the price of structural steel $5 a ton.

Senator MYERS. Did you increase it?

Mr. FAIRLESS. Yes; but not $5 a ton.

Senator MYERS. Your profit in structural steel is not satisfactory.

Mr. FAIRLESS. That is right. We increased the price 3 percent.

Senator MYERS. Whatever it was, on tubular steel your profit was not satisfactory.

Mr. FAIRLESS. That is right.

Senator MYERS. And that tubular and structural steel comprised about 3,000,000 tons, as I understood you to testify.

Mr. FAIRLESS. That is right.

Senator MYERS. That is another 10 or 15 percent of your production, is it not?

Mr. FAIRLESS. Well, 5,000,000 of 20,000,000 is 25 percent.

Senator MYERS. All right. Then on 25 percent of your production, your profit was not satisfactory.

Mr. FAIRLESS. Correct.

Senator MYERS. On 75 percent of your production was your profit satisfactory?

Mr. FAIRLESS. Fairly satisfactory.

Senator MYERS. Then I come back to my question, have you given any consideration—that is, has U. S. Steel given any consideration—to lowering the prices on some of those items in order that we could curtail or curb or level off this inflationary spiral?

Mr. FAIRLESS. Unfortunately, Senator, our costs are going constantly up, continue to go up. We just had a railroad freight increase.

Senator MYERS. I understand that. I know your costs are going up. I agree with you thoroughly, that your costs are going up. But in order that U. S. Steel——

Mr. FAIRLESS. But you may know that we are not just haphazardly running our business, if you think that; I hope you do not.

Senator MYERS. Of course I do not, and I have not said anything to give you that impression.

Mr. FAIRLESS. We have constant studies, constant studies of each product cost, in relation to its selling price. Do not think that I get any pleasure out of raising steel prices. I would be the happiest individual in this room if I could announce an over-all reduction of price of steel right today, but I am not permitted to do it, because of the costs, and they are ever mounting.

To reach the point that you are driving at of having a reduction in the price of steel, I tried to cover that in my closing paragraph.

Senator MYERS. I think you did. But because everyone in the country is worried about inflation, I thought U. S. Steel might perform a great public service, if they would endeavor to readjust downward some of the prices on those items on which they are making a fair and reasonable, I do not say exorbitant, but a fair profit, when they must increase the price on items where they are losing money. That would be, I would think, a great thing if they would consider readjusting downward their prices on some of those other items on which their profit is fair or reasonable, and probably very favorable.

I wondered if you or the company or the board might have given any consideration to that.

Mr. FAIRLESS. Our costs-selling price relationship is constantly under study.

Senator MYERS. I can understand that. You indicated in your statement that you hoped that we could stabilize prices and stabilize wages, but, Mr. Fairless, and this is not a criticism, we had hearings all summer on prices, three subcommittees, but everybody said, "Let George do it." Nobody took the initiative. Nobody said, "Well, let us do something. Let us reduce our prices. We will reduce our profits, but we will still have a fair and reasonable and just profit." Nobody seems to take that position.

One of the big companies, I think it was General Electric, did roll back their prices 5 or 10 percent on some items——

Senator O'MAHONEY. On some items.

Senator MYERS. But nobody followed them. If we could get to that point, to get that cooperation, it would be a great thing for America, and for your company.

I heard you say, Mr. Fairless, that what the workingman is interested in is reduced cost of foodstuffs, that it is not steel that enters into the high cost of living, it is the price of food and clothing. Do I quote you correctly?

Mr. FAIRLESS. I did not say that it did not enter into it. I said that the complaint of the workingman as to the high cost of living was referring to the cost of food and clothing and a place to live. I still say steel is certainly not the governing point there.

Senator MYERS. But steel contributes, the refrigerator in the butcher shop to keep that food——

Mr. FAIRLESS. Just keep in mind that we go down into the bowels of the earth to bring out the iron ore and the coal and the limestone, and we transport it, and we assemble it, and we roll it and finish it into finished product that sells on an average for less than 4 cents a pound. Now, that is not what hurts the workingman. It is the 96 cents a pound for butter.

Senator MYERS. The farmer has to pay so much for the machinery which he used.

Mr. FAIRLESS. We do not get our raw material from animals, you know.

Senator MYERS. Let us not be captious. I am not arguing with you. We are trying to solve a problem here. You indicated that they, the working people, were only interested in the price of food and clothing. But the price of steel enters into that. Farm machinery which has spiraled in price is made of steel; refrigerator cars—you mentioned increased freight charges—freight cars are made of steel and boxcars and refrigerator cars are made of steel.

All those go into that price. The refrigerator that the butcher has, as I mentioned before, in his little shop at the corner costs more. That enters into it.

You just cannot say that steel enters into the price of foodstuffs in an infinitesimal way.

Mr. FAIRLESS. I was trying to accentuate the extent to which it enters into it. It is not the predominating factor as some would have you believe, or the public believe.

Senator MYERS. It is not negligible.

Mr. FAIRLESS. It is a small factor.

Senator MYERS. It may be small.

Mr. FAIRLESS. It is not the predominating factor.

Senator MYERS. I understood you to give the impression that it was very negligible. I will accept your word small, but as for the wave of your hand, by that I thought you meant steel prices enter into food prices in a negligible way or not at all.

Let me ask you two final questions.

What percentage of your production comes from plants that were built during the war?

Mr FAIRLESS. What percentage?

Senator MYERS. Yes.

Mr. FAIRLESS. Plants during the war, steel-producing plants?

Senator MYERS. Did you expand your facilities during the war to any large extent?

Mr. FAIRLESS. Yes. Well, we bought, if you are talking about steel-producing plants, now, we bought from the Government two steel-producing plants, one located in Homestead, Pa., with a capacity of about 3,000,000 tons of ingots per year.

Senator MYERS. Surplus plants?

Mr. FAIRLESS. Let me complete, please. We bought a steel-producing plant with a capacity of about 3,000,000 tons located in Homestead, Pa.—pardon me, 1,800,000 ingot tons, and we bought another plant built by the Government and owned by the Government in Utah, with a capacity of about a million tons per month, or slightly over.

Those are the two steel-producing plants that we have acquired since the war.

Senator MYERS. What was the purchase price compared to the cost of those plants?

Mr. FAIRLESS. In the case of the Homestead, the purchase price was the actual cost.

Senator MYERS. The actual cost?

Mr. FAIRLESS. 100 cents on the dollar.

Senator MYERS. And the Utah plant, too?

Mr. FAIRLESS. No, sir. The Utah plant cost the Government about $200,000,000, and we bought it for $46,000,000, I believe the figure was.

Senator MYERS. What is the production of the Utah plant?

Mr. FAIRLESS. About 1,000,000 tons.

Senator MYERS. And the Homestead plant was about 1,000,008, you said?

Mr. FAIRLESS. Yes.

Senator MYERS. So roughly those two plants which you bought from the Government produce about 3,000,000; I mean the capacity.

Mr. FAIRLESS. The capacity; they have the capacity to produce that.

Senator MYERS. In regard to your own plants, Mr. Fairless, you of course expanded your facilities during the war?

Mr. FAIRLESS. Sir?

Senator MYERS. You of course expanded your facilities during the war.

Mr. FAIRLESS. To some extent. We sold some plants during the war, too. We sold a plant in Pennsylvania, in your State, in my State.

Senator MYERS. How much did you increase your tonnage capacity during the war?

Mr. FAIRLESS. We did not increase it. We were not permitted to increase beyond the plants that we built by the Government.

Senator MYERS. I do not quite understand that.

Mr. FAIRLESS. The materials were not available.

Senator MYERS. No, no; I have asked if you expanded your facilities during the war.

Mr. FAIRLESS. I am trying to answer that question. We were not as you must realize, permitted to use materials to expand facilities except by direction and approval of the Government.

Senator MYERS. Of course, I understand that. I asked, Did you expand?

Mr. FAIRLESS. No.

Senator MYERS. You did not expand?

Mr. FAIRLESS. No.

Senator MYERS. You did not expand your tonnage, then; United States Steel did not expand or increase its tonnage capacity during the war?

Mr. FAIRLESS. I might say this, if you will permit me to read a statement that I just recently made:

Benjamin F. Fairless, president of United States Steel Corp., on January 14 stated that as of January 1, 1948, United States Steel had a rated annual capacity for the production of steel ingots and castings amounting to 31,226,200 net tons.

In this connection, Mr. Fairless pointed out:

1. This steel-producing capacity represents a net increase of 3,431,200 tons, or 12.3 percent, since January 1, 1940.

2. The corporation's rated annual blast-furnace capacity at January 1, 1948, amounted to 24,860,500 net tons of pig iron and other ferrous products, a net increase in the past 8 years of 2,494,700 tons, or more than 11 percent.

3. In addition to the foregoing figures, 300,000 net tons of additional steel-producing capacity and 1,000,000 tons of additional blast-furnace capacity are now in course of installation by United States Steel.

4. United States Steel actually has added 7,537,600 net tons to its steel-producing capacity during this 8-year period, an increase of 27.1 percent.

5. The corresponding increase in blast furnace capacity during this period was 5,932,500 net tons, or 26.5 percent.

Thus, United States Steel Corp. has added to its basic productive capacity to the extent of more than one-fourth during World War II and the postwar years.

The foregoing net increases in capacity represent smaller tonnages than these actual additions largely because obsolete facilities were taken out of production following their intensive use during World War II, and also because further facilities were sold by United States Steel to other steel companies. These last-mentioned facilities, having an annual capacity of 1,292,000 net tons of steel and 1,841,100 net tons of pig iron, have not been lost to the country, as they are now being operated under their new ownership.

The increase in the rated annual steel ingot and castings capacity of United States Steel since January 1, 1947, amounts to 1,679,000 net tons. This increase reflects additions to facilities, as well as the restoring to active status of certain marginal steel-producing facilities which have been kept in operation, although previously authorized to be dismantled. It also includes the full capacity of the steel mill at Geneva, Utah, purchased by United States Steel from the Government in 1946.

Senator MYERS. You got rid of a number of obsolete facilities, and secured some of these new ones.

Mr. FAIRLESS. No; not entirely, Senator.

Senator MYERS. Some of those that you disposed of, I surmise, were rather obsolete.

Mr. FAIRLESS. No; the largest part that we sold was not an obsolete plant. It was located in the Sharon plant, and sold to the Sharon Steel Hoop. Its location fitted much better into the plan of the Sharon Steel Hoop Co., Sharon Steel Corp., than it did into the steel corporation, so it was not selling an obsolete plant. The plant is operating today and doing a good job.

Senator MYERS. Let me ask you this final question. I understand that recently the Department of Justice has been asked to contact all of the steel companies in regard to this present increase in prices, is that not so?

Mr. FAIRLESS. I understand so.

Senator MYERS. Have they been doing so?

Mr. FAIRLESS. I have not be contacted.

Senator MYERS. You mean by the Department?

Mr. FAIRLESS. I am not asking for it.

Senator MYERS. You mean the Department has not yet contacted the United States Steel?

Mr. FAIRLESS. Yes. I have not been.

Senator MYERS. Personally, but has the Department been in touch with United States Steel?

Mr. FAIRLESS. That is right.

Senator MYERS. I assume that they can be sure of every cooperation in that investigation.

Mr. FAIRLESS. Oh, absolutely.

Senator MYERS. And your pricing structure and the information that you have will be available to them?

Mr. FAIRLESS. Yes, sir.

The CHAIRMAN. Any other questions?

Senator O'MAHONEY. One or two more questions.

Mr. Fairless, in respect to tubular and the relationship of tubing to the cost of producing oil, which is a very necessary commodity in the United States at the present time, I have before me a page from the market news of the magazine Steel. This magazine was dated late in February. I have forgotten the exact date. On page 148 I find this item from Pittsburgh:

> Price advances in pipe and tubing items put into effect by major producers during the last 10 days have not followed the uniform pattern. More than one interest raised oil-well tubing substantially more than the $9 a ton increase recently made effective by National Tube Co. While some variations are noted in size, classification, range, break in prices on seamless standard and lined pipe, some producers, for example, have advanced oil-well tubing $20 per ton for 2 inch outside diameter, $15 for 2½ inch, $10 for 3 inch, other sizes $9. For seamless standard and lined pipe some interests have established a price break under 8⅝ inch, others at 8⅝ inch and under.

United States Steel was one of the companies which increased the price on this tubing, was it not?

Mr. FAIRLESS. Yes, but it did not increase the prices that you are now reading. Would you like to know the prices?

Senator O'MAHONEY. Oh, yes, of course I would like to get them in the record.

Mr. FAIRLESS. Fine.

Senator O'MAHONEY. If you do not have them at hand——

Mr. FAIRLESS. I have them.

Senator O'MAHONEY. All right.

Mr. FAIRLESS. But weld pipe—this is a long list. I will make it part of the record, or read it.

Senator O'MAHONEY. I suggest that you make it part of the record.

The CHAIRMAN. Tell us about how many. Can you not just state briefly about how much a ton you increased pipe, the average increase in pipe.

Mr. FAIRLESS. Yes. The total amount of money involved on an annual basis, Mr. Chairman, is $11,034,048, and the tonnage involved, 1,500,000 tons.

The CHAIRMAN. How much per ton was the average increase? I want to know that, compared to the figures read by Senator O'Mahoney. That is what I want.

It seems to me about $7.50 a ton.

Mr. FAIRLESS. That is about right.

The CHAIRMAN. On the basis of your figures; is that right?

Mr. FAIRLESS. Yes.

The CHAIRMAN. Will you put the whole list of increases in the record?

Mr. FAIRLESS. I will be very happy to do that.

(The list is as follows:)

Butt-weld pipe, black, $7.
Butt-weld pipe, galvanized, $10.
8-inch outside diameter seamless, $9.
8⅝-inch and larger, seamless, $6.
Drill pipe, $6.
O. C. tubing, $9.
O. C. casing, 8 inch O. D., $9.
O. C. casing 8⅝ inch to 13⅜, $6.
Tubing specialties, $9.

Senator O'Mahoney. The Oil Well Supply Co. is a subsidiary of the United States Steel, is it not?

Mr. FAIRLESS. That is right.

Senator O'MAHONEY. How about the National Supply Co.?

Mr. FAIRLESS. That is owned by ——

Senator O'MAHONEY. It is not a subsidiary?

Mr. FAIRLESS. It is not a subsidiary.

Senator O'MAHONEY. Do you know what the effect of this increase of the cost of pipe is on the relationship, the competitive relationship of Oil Well Supply and National Supply?

Mr. FAIRLESS. No, I know nothing about that. I do not understand your question, Senator.

Senator O'MAHONEY. Whether or not these increased prices have improved or injured the competitive relationship of National Supply with Oil Well Supply?

Mr. FAIRLESS. Not at all.

Senator O'MAHONEY. Do you know what prices the two companies are charging to those who are seeking to buy, or to the oil companies?

Mr. FAIRLESS. I know what price our company is charging.

Senator O'MAHONEY. Will you put them in the record, please?

Mr. FAIRLESS. The prices?

Senator O'MAHONEY. Yes, the prices on oil tubing; put them in the record.

Mr. FAIRLESS. Yes, I have them here. That was already settled.

Senator O'MAHONEY. Let me read this paragraph to you from Iron Age of February 26, 1948:

> No secret has been made of the fact that several steel price increases have been put into effect since the first of the year. A summary of these includes tin plate, terneplate, black plate for alloys, steel bar extras, nails, wire fencing, railroad car axles and wheels, tie plates, all types of pipe and tubing, all types of semifinished steel. A conservative estimate on the basis of 1947 steel shipments indicates that these increases (which steel companies claim were necessary because of much higher prices for materials they purchased) on an annual basis would amount to more than $170,000,000 to the consumer if 1948 operations are as high as last year.

Is that editorial opinion of Iron Age in accord with your opinion?

Mr. FAIRLESS. I do not know. I do not know. I cannot answer that. That is a story about the steel industry.

Senator O'MAHONEY. I know it is.

Mr. FEARLESS. I am only speaking for the Steel Corp.

Senator O'MAHONEY. You are a member of the steel industry.

Mr. FEARLESS. I tried to give you, Senator, our figures of just what we had done and what the results are.

Senator O'MAHONEY. All right.

Mr. FAIRLESS. If there is anything that I have failed to provide for you, or this committee, I will do so upon request.

The CHAIRMAN. Your own increase is $28,000,000, and that does not count these January increases, which add something to it. Do you know how much?

Mr. FAIRLESS. We did not advance the price of tin plate in January. We advanced it in December. I gave you that story.

The CHAIRMAN. You have about 30 percent capacity, 30 percent of the business, are you not, of the country?

Mr. FAIRLESS. Of steel?

The CHAIRMAN. United States Steel.

Mr. FAIRLESS. About 30 percent of the ingot capacity. It fluctuates.

The CHAIRMAN. So $28,000,000 or $30,000,000 translated would be $100,000,000 at any rate.

Mr. FAIRLESS. It does not follow.

The CHAIRMAN. As to others——

Mr. FAIRLESS. Mr. Chairman.

The CHAIRMAN. That would not follow?

Mr. FAIRLESS. No. A great many people in the steel business do not make tubular goods. Others do not make tin plate, and so forth.

The CHAIRMAN. You think that the Steel Co. got a bigger share of this increase than the industry as a whole, is that right?

Mr. FAIRLESS. It got a bigger share of the semifinished, because no one else wants it.

The CHAIRMAN. I am talking about all of these increases. I was only trying to verify Senator O'Mahoney's total increase here, and you say that $28,000,000 for you does not show $100,000,000 for the industry, apparently because you got a larger share of the increase than anybody else.

Mr. FAIRLESS. We have 30 percent of the capacity, and, of course, if the price increase were distributed equally all over every ton of steel, then it would naturally accrue to each and every producer, but that does not happen.

Senator O'MAHONEY. I do not desire to prolong this for the moment, but there is some additional information that I should like to have. In the first place, on page 2 of your statement, Mr. Fairless, I find this sentence, explaining the price situation with respect to semifinished steel:

It is a somewhat special form of steel used as raw material by only a few concerns.

Would you be good enough to have somebody put in the records the names of those few concerns to whom that product is sold?

Mr. FAIRLESS. We will give you a complete list of every customer we sell semifinished steel to.

(The information is as follows:)

REROLLING BLOOMS, BILLETS, AND SLABS

Acme Steel Co.
American Steel & Wire Co.
Ingersoll Steel & Disc
McLough Steel Corp.
Allegheny Ludlum
Superior Steel Corp.
Universal Cyclops
Dilworth Porter Division, Republic
Poor & Co.
National Tube Co.
General Motors Corp., Chrysler, Ford & Willys Overland
Joslyn Manufacturing Co.
Highland Iron & Steel
Phoenix Iron
Missouri Rolling Mill
Export—British

FORGING BILLETS

Wyman Gordon
Standard Forgings
Ladish Co.
Caterpillar Tractor Co.
Taylor Forge & Pipe
Pittsburgh Forgings
General Motors
Chrysler
Allis Chalmers
Bucyrus Erie
Crane Co.
A. Finkl Co.
Milwaukee Forge
Unit Drop Forge
Interstate Drop Forge
Harnischfeger Corp.
Atlas Drop Forge
J. I. Case Co.
E. W. Bliss Co.
Deere & Co.
Edgewater Steel Co.
Elwood City Forge
Endicott Forge & Manufacturing Co.
Johnston & Jennings
Moline Forge
Pullman-Standard Car
Henry Vogt Machine Co.
General Electric
Ingersoll Rand
Koppers Co.
Pennsylvania Railroad.
New York Central Railroad
Camden Forge
Pennsylvania Forge Corp.
Heppenstall Co.
Transue & Williams
William Laird
Struthers Wells
Park Drop Forge
Ohio Forge & Machine
Commercial Forgings Co.
Champion Forge & Machine
Marion Power Shovel
Columbus Anvil & Forge Co.
Cleveland City Forge
Star Drilling Co.
Poor & Co.

DIE-ROLLED CRANKSHAFTS

General Motors and Chrysler

FORGING INGOTS

Camden Forge
Pennsylvania Forge
Struthers Wells
Heppenstall
William Laird
Elwood City Forge
Allis Chalmers
A. Finkl Co.

SPECIAL BLOOMS FOR SEAMLESS TUBING

National Supply Co.

TUBE ROUNDS

Babcock & Wilcox Tube Co.
Globe Steel Co.

SKELP

National Supply Co.
Pittsburgh Tube Co.
Mercer Tube & Manufacturing Co.
Dresser Industries, Inc.
Sharon Tube Co.
Canadian Tube & Steel Products, Ltd.
Page Hersey Tubes, Ltd.
Steel Company of Canada, Ltd.

Senator O'MAHONEY. Earlier I asked you to give the committee some information with respect to this system of extra prices.

Would you be good enough to have that put in, extras for quality and extras for size, and so forth?

Mr. FAIRLESS. We will give you our complete list.

Senator O'MAHONEY. If you will, please.

Mr. FAIRLESS. Yes.

(The witness has supplied the requested lists, which may be consulted in the committee files.)

Mr. RICH. I would like to ask the Senator, the article he read from Iron Age, who is the editor of that?

Senator O'MAHONEY. I do not know.

Mr. RICH. It might be anybody.

Senator O'MAHONEY. I daresay the Iron Age is represented here. Is there anybody representing Iron Age who desires to answer the question of the Congressman? I am sure the committee will be glad to hear him.

Mr. RICH. When you get a statement like you read, it is always wise to put in the name of the editor so that we can check up and find out whether he knows what he is talking about.

Senator O'MAHONEY. Mr. Fairless, is not Iron Age accepted as a competent and well-managed trade journal by those who are engaged in the steel industry?

Mr. FAIRLESS. To the best of my knowledge it is so recognized throughout the industry generally.

The CHAIRMAN. If there are no more questions, we thank Mr. Fairless for his appearance, and if Mr. Homer and Mr. Batcheller will be kind enough to come back this afternoon, we will meet at 2:30 p. m.

(Thereupon at 12:45 p. m., a recess was taken until 2:30 p. m., the same day.)

AFTER RECESS

(The hearing was resumed at 2:50 p. m.)

The CHAIRMAN. The committee will come to order.

Mr. Homer, the president of the Bethlehem Steel Co. will testify. Do you wish to proceed with your whole statement first and then be questioned?

Mr. HOMER. I would, Senator.

STATEMENT OF ARTHUR B. HOMER, PRESIDENT, BETHLEHEM STEEL CO., ACCOMPANIED BY A. J. SLATER, ASSISTANT TO VICE PRESIDENT; M. C. SCHRADER, ASSISTANT TO VICE PRESIDENT; AND F. R. BRUGLER, ASSISTANT COMPTROLLER, BETHLEHEM STEEL CO.

Mr. HOMER. Mr. Chairman and gentlemen, I am very glad to be here to discuss with your committee the recent increase in steel prices. I speak for Bethlehem Steel Co. We of Bethlehem appreciate this opportunity of correcting certain grave misconceptions that have developed with respect to that price increase.

On February 18, Bethlehem put into effect a price increase on certain of our rolled-steel products known as blooms, billets, and slabs. They are sometimes referred to as semifinished products and are purchased from us by a very few of our customers for use as the raw material in certain of their forging and rolling operations.

This price increase affects an insignificant amount of production, less than 1 percent of our sales of rolled steel products; it affects an insignificant number of our customers, less than one-half of 1 percent of those who purchase steel from us; and it involves a relatively insignificant amount of our income, since if this price change had been in effect during the year 1947 it would have increased our total billings by only one-twentieth of one percent.

Why then did Bethlehem make this price adjustment?

The recent price increase on blooms, billets, and slabs for forging or rerolling uses amounted to slightly less than $5 per net ton, and, if the products are produced to certain specifications, extra charges have been added that may average about $2.50 per net ton on the rerolling product and 75 cents per net ton on the forging product.

Practically all steel products are sold on a net ton basis. The fact that, prior to our recent price adjustment, blooms, billets, and slabs were sold on a gross ton basis was at times the source of some confusion to our customers and ourselves, since steel product records are normally kept in net tons.

In making the recent price adjustment it seemed advisable to place blooms, billets, and slabs on the same tonnage basis used in making almost all steel sales.

Before the recent increase our price for blooms, billets, and slabs, though quoted on a gross ton basis, was equivalent to $40.20 per net ton for the product used for rerolling and $49.10 per net ton for the product used for forging.

When you realize that steel scrap, a basic raw material used in making these products, costs us around $40 per net ton delivered at our plants, the reason for the adjustment in the price of the products becomes apparent.

Prior to the price adjustment we were selling these rolled steel products at a substantial loss and for about the cost of scrap.

Our price adjustment was made to partially correct an obvious price dislocation. Even after the recent price increase we are still selling these products at a loss.

It should be clear that we would not offer a pound of these products for sale if it were not for the fact that we are doing our best to take care of those few of our customers who use the products in forging and rerolling operations and whose plants would be seriously affected if we were to withdraw the products from our sales lists.

You may wonder how Bethlehem came to make this price adjustment at the time and in the amount that we did.

The price adjustment was announced by us to our district sales offices by telegrams dispatched from our home office in Bethlehem on February 18. The price adjustment became effective on February 18, and the price adjustment was reported in the press on February 20.

Our action in increasing our price on February 18 was taken in recognition of the fact that the market price of blooms, billets, and slabs had, on February 13, risen to the prices at which we are now selling. This rise in the market price was due to the fact that some time prior to February 13, the principal seller and producer of the products had notified its customers that from and after that date its price for rerolling blooms, billets, and slabs would be $45 per net ton and for forging blooms, billets and slabs would be $54 per net ton, and that for meeting certain specifications certain extra charges, that I have already referred to, would be added.

The first information we, of Bethlehem, had of the change in the market price was received when some of our salesmen were advised by our customers that they had received notice of the new price from the principal producer of the product.

The CHAIRMAN. That is the United States Steel Corp.?

Mr. HOMER. Yes.

For the reasons I have already given you, we have since February 18 offered the products for sale at the current market price.

I have gone into some detail about our new price on blooms, billets, and slabs because there has been some confusion in some of the press reports as to the extent of the price change and the reasons for the conversion from a gross to a net-ton basis of selling the products.

You may wonder why, if we had for some time been selling certain of our products for about the cost of scrap, Bethlehem did not increase the price of the products before February 18. We could, of course, for some time prior to February 18 have sold the products for more than our old price, but we are not in business for today alone. We want to hold our customers for the future and to do that we sell to our customers at a price which will make them strictly competitive with their competitors who are not our customers but who are buying in an established market of sufficient volume to be generally recognized as establishing the current, going price for the products in question.

We believe that that is sound business policy. The President, in his economic report to the Congress, has called to the Nation's attention his belief that it is in the public interest in these times for industry not to attempt to sell its products at the highest price obtainable. The president said:

> There is ample evidence that many businessmen realize that charging less than the market will bear is good business policy and is in the public interest. Many firms are rationing their output among their customers, which shows that they could obtain higher prices. The so-called gray market prices are an indication that regular suppliers are charging less than the demand would permit. Moreover, a number of individual firms and representatives of business organizations have recognized that their long-run interests and the welfare of our country are best served by a reduction of profit margins. Many others are in a position to follow this policy.

The President has well described the policy we have been following. For example, we would normally consider a 10 percent net profit on gross sales to be a reasonable average return in our business which, as you know, has a very slow rate of capital turn-over. In good years, when we have operated at a high rate of capacity, we have earned more. In 1929 Bethlehem's net profit represented 12.3 percent of gross sales.

However, in 1946, also a year of high-capacity operations, our price-restraint policy reduced our net profit to 5.3 percent of gross sales.

Since 1946 we have continued, and are now continuing, our price-restraint policy. Our net profit in 1947 was 4.9 percent of sales. The President's report shows that the average profits of all private manufacturing corporations were, during the first two quarters of 1947, 7.5 and 6.7 percent of sales and that some of such corporations were realizing profits in excess of 10 to 12 percent of sales.

The President's report repeatedly emphasizes the fact that for each industry and for each company in each industry, there is a limit below which the profit margin should not be permitted to fall if the public interest is to be properly served.

The President's report points out that profit margins must be adequate—

> to maintain the financial health of the enterprise, to provide reasonable returns to investors and management, and to obtain funds for needed expansion and modernization.

It is in regard to the last item of the President's standards for evaluating the limit to which profit margins may be reduced that we find the greatest differences in the application of such standards as between different industries and different companies.

Industries in which the national need for additional capacity is low are obviously industries in which the profit margin can, in the public interest, be relatively low, since the need to obtain funds for expansion in those industries is not a pressing one. However, in those industries, such as the steel industry, in which the need for additional capacity is high, profit margins should, in the public interest, be somewhat higher, since it is in those industries that the need for funds for expansion are particularly pressing.

To help relieve the current steel shortages, Bethlehem is now engaged in the largest expansion program in the history of our company. We are also engaged in carrying out a strict policy of price restraint. These two policies run at cross purposes, though both are obviously in the fullest sense in the interest of the Nation as a whole.

The first result of carrying a price-restraint and profit-limitation policy, even slightly beyond the limits set forth in the President's report, is to make it all but impossible for an enterprise to attract new equity money and to make it increasingly difficult, if not impossible, for the enterprise to borrow anything but relatively nominal amounts of money.

The President's report called attention to the fact that enterprises today require large sums of money in order to carry on the business of producing the products necessary to sustain the national economy, and to finance needed expansions and improvements and to maintain proper inventories, and to repair and replace existing production facilities as they wear out.

In his midyear report of 1947 the President said:

> In appraising profit trends, allowance should be made for the fact that business, like every other group, finds that the purchasing power of money had declined considerably. To maintain the same physical volume of inventories requires large additional amounts of capital funds. Furthermore, replacement costs have risen substantially, while profits are usually calculated by basing depreciation allowances on original costs rather than replacement costs.

Bethlehem has pressed its price-restraint policy so far that we are now forced to rely heavily on our earnings in order to finance the largest plant expansion program in our history. We spent over $105,000,000 on new facilities in 1947 and our current new facility construction program will involve an expenditure of over $100,000,000.

Operating our facilities to produce an unprecedented volume of steel products in 1947, and selling those products at a low-profit margin of 4.9 percent, Bethlehem in 1947 earned a net profit of $51,000,000. After normal dividend payments, we had left out of 1947 earnings, the sum of $26,000,000 which, with depreciation allowances, came nowhere near providing the $105,000,000 spent by Bethlehem in 1947 in the construction of new facilities.

In spite of the strict application of our policy of price restraint the average billed price per ton of our rolled-steel products shipped in January 1948 was 48 percent higher than our average price of comparable steel products shipped by us in 1939.

It must, however, be remembered that the President's economic report shows that from 1939 to December 1947 the wholesale price of all commodities increased 111 percent almost three times as much as the increase in our steel prices; the average hourly earnings of employees in durable-goods-manufacturing industries increased 92 percent, more than twice as much as the increase in our steel prices; and the cost of living increased 66 percent, one and one-half times as much as the increase in our steel prices.

It would appear that our policy of price restraint has been a stabilizing influence in the national economy. We, in Bethlehem, know that our low pricing policy has had another effect. It has made our effort to serve the Nation by increasing our production facilities one of the most pressing and serious problems with which our company is now faced.

But in the Nation's interest we and others in industry who have undertaken unprecedented facility-expansion programs must solve the problem of financing them, for if those programs were suddenly halted through lack of funds, the capital-goods and construction industries could undergo a collapse that would be the beginning of a major depression that might well do irreparable damage to our national economy.

While striving to stabilize our facility-construction costs, we have been faced with the constant and pressing problem of attempting to stabilize our steel-production costs.

On the basis of the 1936–39 averages, just look at what has been happening to our operating costs:

The average hourly earnings of our employees have gone up 95 percent. Coal has gone up 93 percent, scrap has gone up 155 percent, fuel oil has gone up 180 percent, coke has gone up 128 percent, limestone has gone up 80 percent, copper has gone up 95 percent, tin has gone up 100 percent, lead has gone up 200 percent, zinc has gone up 131 percent.

And our construction costs of new facilities have gone up about 95 percent. A new blast furnace will cost 100 percent more and large electrical equipment has increased 84 percent.

I again remind you that our net realized steel prices have increased only 48 percent since 1939.

In operating under our price-restraint policy we have not had an easy time. But let me say again there can be no doubt that our policy of low prices has been a stabilizing influence in our national economy.

In discussing our policy of price restraint I must admit that it has had one unfavorable effect. If we had followed a less restricted pricing policy our profit margin would no doubt have equaled our 1929 profit margin of 12.3 percent of sales. That we could have priced our products on that basis is evidenced by the fact that some of our competitors are selling rolled-steel products at prices substantially higher than our current prices for the same products.

For example, some of our competitive producers in the industry representing large tonnages are selling plates at from 10 to 36 dollars a net ton higher than our price for plates, and this is not a gray-market operation. If we had followed a less restricted pricing policy, it would have been obivious to our customers that we were operating at a profit margin that was on the high side, and those of our customers who had steel requirements that could be deferred, and there are many such, would have anticipated that by delaying the placing of their orders that could wait until the demand for steel eased off and the profit margin and price dropped.

However, as the result of the strict enforcement of our policy of price restraint and the resuting low-profit margin, our customers clearly see that out profit margin cannot in the public interest be much further reduced and that they can gain nothing price-wise by waiting. Thus, our price restraint policy has pyramided on top of the great nondeferrable demand for our products, a large and disruptive demand for steel, the orders for which could be held back and deferred if there appeared to be a price incentive for doing so. The current demand for our products has been further abnormally increased by our low prices due to the fact that industries making alternative products, such as lumber, are operating on a relatively high-profit margin and steel is now being used for purposes which could be adequately be served by such alternative products.

In carrying forward our policy of price restraint we have been mindful of the fact that steel is basic and vital to our way of life.

However, moderate changes in steel prices have relatively little effect on the cost of producing the articles purchased by the ultimate consumer.

A $5 per ton change in the price of all steel products going into a $1,500 automobile would affect the cost of producing the automobile about $8; a $20 electric toaster would be affected by less than 1 cent; a $285 electric refrigerator by 61 cents; a $184 gas range by 49 cents; and a $130 washing machine by 25 cents; while the cost of building a 35 story steel frame office building would be affected by six-tenths of 1 percent.

Let us now look for a moment to the future.

Does our policy of price restraint when applied in conformance with the standards set forth in the President's economic report mean that we in the Bethlehem organization can now, with certainty, anticipate that there will be no occasion for us to make any price ncrease during the remaining months of 1948?

Notwithstanding the strict application of our low-pricing policy, if increases in our production and construction costs exceed the savings that we can effect through our constant efforts to improve production efficiencies, we may be forced to increase some of our prices.

If, however, cost increases can be sufficiently restrained through wage stability and increased production efficiencies, it is our sincere hope that the attainment of our long-sought goal of issuing announcements of price reductions will not be too long deferred. If our price-restraint policy is to enable us to achieve our goal of reducing prices we need help from those from whom we are purchasing the materials used in the production of steel and we are hopeful that they can stabilize their prices to us and in some instances, for example in the case of scrap, reduce them.

We need help also from our employees in assisting us to improve our production efficiencies.

Since we believe that our employees are aware of the fact that to February 1 of this year, their average hourly earnings have gone up 95 percent over the 1936–39 base, while the cost of living during the same period went up by 68 percent, and since we believe that our employees are becoming convinced that it is in their own interest and the public's interest that the spiral of upward costs and prices be halted, we see no justification for any further wage increases.

We are looking to the Government to follow sound practice in the conduct of its fiscal and financial affairs so as to contribute to the reversing of the spiral of costs.

One of the danger spots is the increasing cost of replacing our existing properties, the original cost of which was in excess of 1 billion dollars. Today it is estimated that it would take between two and three times that amount to replace our existing facilities.

In applying our low-price policy in the months to come, we shall not change the standards we have been following, the results of which I have just outlined.

During 1948, the market price, as established by the major producers of the various products, has increased on nails, barbed wire and fencing, pipe, bale ties, structural shapes, splice bars, tie plates and tin mill products. After careful study and in strict accord with our policy of price restraint we are now selling on the basis of the market price so established for all such products, except structural shapes. We are now reviewing the facts with respect to the new market price of structural shapes and it is my belief that we must, within the near future, begin to sell on the basis of the existing structural shape market.

The application of our low-price policy throughout 1947 limited our net profits on stockholders' equity to 9.5 percent. This is to be compared with the figures in the President's report which indicate that during the first two quarters of 1947 all private manufacturing corporations were operating at an average net profit of over 15 percent of stockholders' equities and that some of such corporations were operating at a net profit rate in excess of 20 percent of stockholders' equities, over twice Bethlehem's profit return. A report published by the National City Bank of New York, which covers the full year 1947, shows that all manufacturing corporations were operating during 1947 at an average net profit of 16.9 percent of stockholders' equities.

Let me say again that Bethlehem's primary job today is to serve the Nation's interests by finding ways and means to complete the construction of our current $105,000,000 new-facility program, while at the same time adhering consistently to our policy of pricing our products low.

I believe that our record shows that we have not ridden the spiral of inflation upward. Our margin of profit has declined and our prices have been restrained in relation to other commodities. And we have done this at a time when the demand for steel was tremendous, production costs were rising and additional capacity was being added at extremely high cost.

The CHAIRMAN. Mr. Homer, as far as this semifinished steel business is concerned, I see that you have a very small part of that business, is that right?

Mr. HOMER. That is right, Senator. It is less than 1 percent of our production.

The CHAIRMAN. You say it is one-twentieth of 1 percent.

Mr. HOMER. On billings, I thought that you meant in tonnage.

The CHAIRMAN. Well, is that a very different percentage? On the first page, you say one-twentieth of 1 percent, that would be only about $500,000 for the year, is that right?

Mr. HOMER. It is 1 percent of our sales, Senator.

Senator O'MAHONEY. Is that in dollars or in tons, that 1 percent?

Mr. HOMER. Tons is 1 percent, on the tonnage basis, and on the billing basis, it is one-twentieth of 1 percent.

The CHAIRMAN. The additional increase that you get is only $500,000.

Mr. HOMER. It is $456,735.

The CHAIRMAN. What other increases were there? There were substantial increases in August of 1947, were there not, in all-steel products?

Mr. HOMER. That was August of 1947, Senator?

The CHAIRMAN. Yes.

Mr. HOMER. There were some in August of 1947.

The CHAIRMAN. And also increases in January in various kinds of special products.

Mr. HOMER. That is right.

The CHAIRMAN. Were those substantial increases altogether in your income?

Mr. HOMER. Out of all of our January billings we would estimate that the increase due to price increases would amount to about 1.4 percent of our total billings.

The CHAIRMAN. Your total increases are around $1,000,000, roughly?

Mr. HOMER. It is around $1,360,000. You were asking for the increase in dollars due to the price rise?

The CHAIRMAN. Yes.

Mr. HOMER. We estimate it is about $1,300,000.

The CHAIRMAN. That is January of 1948?

Mr. HOMER. Yes, sir; and that includes all of the increases that have occurred in that period.

The CHAIRMAN. This semifinished steel was something around $450,000, I think you said. Do you make these tubular and structural steel items, the other increases that we had this morning?

Mr. HOMER. We do, but our tubular goods production is very small.

The CHAIRMAN. You specialize on what, plates?

Mr. HOMER. Structural is a fairly substantial amount of our production.

The CHAIRMAN. Did you increase structural?

Mr. HOMER. There have been no increases in structural so far.

The CHAIRMAN. The United States Steel increased structural.

Mr. HOMER. That is what I understand.

The CHAIRMAN. And what you say here is that you are thinking of doing so, or something of the sort?

Mr. HOMER. We are studying the situation at the present time, but we have made no increase.

The CHAIRMAN. In spite of the low price policy, your profits in 1947 were still pretty high, were they not?

Mr. HOMER. They were lower than any other year. I thought that you were speaking of percentage.

The CHAIRMAN. The lowest of any year percentagewise of what? You are talking about gross sales or what? The figures I have here show that you earned more per share in 1947 than ever before since 1936, anyway; is that correct?

Mr. HOMER. Yes. We had the largest net income in 1947 that we have ever had, and we also did a record business.

The CHAIRMAN. You earned $14.95 per common share according to these records.

Mr. HOMER. On the old basis, yes; that is right.

The CHAIRMAN. Have you ever earned that much before?

Mr. HOMER. In dollars per share? In 1940 we earned $14.04 per share.

The CHAIRMAN. That is the figure that I have, but that is less, of course, than this year.

Mr. HOMER. Yes, slightly less than this year.

The CHAIRMAN. Do you think that increases were still necessary this year?

Mr. HOMER. Well, on account of, as I have explained in my statement, our big construction program, yes, we think that the increases were necessary, and also to offset some of the losses that were being had in some of our products.

The CHAIRMAN. The question, as I suggested this morning, is: Do not you think what appears to have been a more or less general increase by all steel companies will have a bad effect, tending to stimulate this spiral of wages and prices?

Mr. HOMER. Well, I think that you are perhaps right, Senator, if we had not already done something along those lines. We feel that we have done our job to a great extent at least, in trying to reduce the inflationary spiral. If you compare us with other industries, I think that the records will show that we have done just that, and we have gotten our earnings down to the point where we think that we are at the end of our rope.

The CHAIRMAN. It is not only the steel wages I am looking at. I am looking at all of the wages in the country and the boost that it gives to the movement to increase those wages.

Mr. HOMER. Well, I wish that we were in the fortunate position where we could conform to your suggestion. I think that you are perfectly right, that if the steel industry could afford to make a price decrease, it would be very helpful.

The CHAIRMAN. I note an optimistic statement on your hand that you thought that your men would entirely realize that they had had a bigger increase already than the increase in the cost of living, and therefore, would not ask for any more. Have you ever found that they took that position before?

Mr. HOMER. I think that if they properly understand the situation, and as you will see, we have tried to explain it to them in our Bethlehem Review which you have a copy of there, they will feel that day. That is our annual report to employees. We try to give them the picture the best we can; and, as I stated in here, I hope that they understand it is just as much in their interest and in the general public interest to refrain from demanding further wage increases as their contribution to keeping the spiral of inflation from going upward.

The CHAIRMAN. Have you any estimate of the probable earnings for the first quarter as compared to 1947? Is there any claim that earnings are lower than they were on the average in 1947?

Mr. HOMER. We, of course, have no final returns from the first quarter because we have not yet completed it, but I can definitely state that our costs are increasing each month.

The CHAIRMAN. So are your prices. I am asking whether you have any estimate of what the profit situation is likely to be. Do you think that you are making less money in January and February than you were in 1947?

Mr. HOMER. I have no estimate of what our profits are going to be for the first quarter.

The CHAIRMAN. You cannot even guess on the month of January?

Mr. HOMER. I can make a guess only by perhaps looking at what happened during the last year, the profits for each quarter. Our average, as I mentioned in my statement, was 4.9 for the full year.

The CHAIRMAN. 4.9 on what?

Mr. HOMER. That was the profit on sales. The first quarter of 1947 showed 6.8 percent, and the second quarter, 4.7 percent, and the third quarter, 4.2 percent, and the fourth quarter, 4.3 percent.

The CHAIRMAN. Have you any reason to think that this quarter will be any different from the last two quarters?

Mr. HOMER. I think it may be about the same; that is my guess.

The CHAIRMAN. Which would be at the rate of around, for the year, 4.3, instead of 4.9?

Mr. HOMER. I think so.

The CHAIRMAN. And would still be in the neighborhood of $13 a share. That is all.

Senator FLANDERS. Mr. Chairman, I would like to ask a question just simply for my own education. You have been using scrap at a price only a few cents below the market price of the semifinished steel into which it goes. Why do you have to use scrap?

Mr. HOMER. Why do we have to use scrap in the steel industry?

Senator FLANDERS. Instead of the new steel made in the open-hearth furnaces from pig iron?

Mr. HOMER. If we did not use scrap, we would have to use a great deal more pig iron, Senator, and it would therefore reduce our capacity for producing steel to a great extent. The ratio in the open hearth of producing steel might run anywhere from 50 to 60 percent of pig iron to the rest being scrap. That is just generally speaking, and therefore, if we do not have scrap, we would have to make it up by using pig iron, and we do not have the pig iron to make it up.

Senator FLANDERS. In other words if you had no scrap in the country, the blast furnace capacity of the country sets the steel capacity?

Mr. HOMER. That is right.

Senator FLANDERS. And you depend on the scrap to give you the added capacity required?

Mr. HOMER. That is correct.

Senator FLANDERS. In ordinary times, is there a cost advantage in using scrap instead of pig iron?

Mr. HOMER. There certainly is.

Senator FLANDERS. That advantage has disappeared under present scrap price conditions?

Mr. HOMER. Very much so. It has disappeared.

Senator FLANDERS. So now it is simply a question of capacity rather than cost of manufacture?

Mr. HOMER. That is right. In order to keep up our maximum capacity or to our maximum capacity of our facilities, we have to use scrap, and we are paying through the nose for that today.

Senator FLANDERS. That was just to inform myself on that particular subject.

The CHAIRMAN. What is the comparative price of scrap and pig iron?

Mr. HOMER. It is pretty nearly the same price; it is nearly the same; it is about $40.

Senator O'MAHONEY. Did you make the same increase with respect to these semifinished products that the United States Steel did?

Mr. HOMER. Yes, sir.

Senator O'MAHONEY. Did you have any conference with United States Steel about it?

Mr. HOMER. No.

Senator O'MAHONEY. How did you happen to make the same increase?

Mr. HOMER. I think my statement outlines that, Senator. We learned of the increase in the market price through our sales people who had heard from customers that they were in contact with that the market price had changed.

Senator O'MAHONEY. And you did not take the initiative?

Mr. HOMER. No, sir.

Senator O'MAHONEY. Would you have taken the initiative if United States Steel had not?

Mr. HOMER. I cannot answer that question; it depends upon what the situation is. We have taken the initiative in come cases, and at other times we have not. It depends on what the product is.

Senator O'MAHONEY. Did you make this increase upon the basis of following the leader or on the basis of your costs of production?

Mr. HOMER. Meeting the market situation.

Senator O'MAHONEY. By which you mean that because United States Steel put the price up, you put it up?

Mr. HOMER. It might have been somebody else.

Senator O'MAHONEY. Yes.

Mr. HOMER. They might have established a price. It all depends on what the product is; if you want to meet the competition, you meet the market price.

Senator O'MAHONEY. The implication is that you put the price up on these commodities not because your cost accountants told you that you ought to, but because your salesmen told you that another company had put them up?

Mr. HOMER. I would say it was a combination of both, Senator. Our accountants have told us for a long, long time that we were losing money on semifinished steel.

Senator O'MAHONEY. How did you happen to put it up in this peculiar way, by reducing the number of pounds in the ton?

Mr. HOMER. I explained it carefully in my statement, and I would be glad to read it again.

Senator O'MAHONEY. I missed that explanation, I am sorry to say. On what page is it?

Mr. HOMER. In my copy, Senator, it is on page 2.

Senator O'MAHONEY. You said before the recent increase, "our price for blooms, billets and slabs," is that the sentence?

Mr. HOMER. It starts out:

> Practically all steel products are sold on a net ton basis. The fact that, prior to our recent price adjustment blooms, billets and slabs were sold on a gross ton basis was at times the source of some confusion to our customers and ourselves, since steel product records are normally kept in net tons.

Senator O'MAHONEY. I was aware of that sentence, but it seemed to me that you had over a great many years been selling this particular product on the basis of the gross tons, and then suddenly, because United States Steel had increased the price and did it by changing from a gross ton to a net ton basis, you followed in perfect step.

Mr. HOMER. We had to be competitive and put it on the same basis.

Senator O'MAHONEY. Would you not have been more competitive to have kept the price down?

Mr. HOMER. It is the same price, Senator.

Senator O'MAHONEY. If you had continued to sell?

Mr. HOMER. It is just a matter of what you call it.

Senator O'MAHONEY. My opinion is this, Mr. Homer. If you had continued to sell at a lower price, would you not then have been maintaining competition rather than by meeting the same price of United States Steel, which it seems to me is a method of eliminating competition?

Mr. HOMER. Well, as I have explained in here, I thought quite carefully about that situation, and it represents only a very small percentage of our total production, and we were losing money on that and have been for some time. We felt that there was no particular handicap in meeting the market price. We could supply our customers with a small amount of tonnage at the new price without any particular handicap to them, because we were already selling to them a product that was below our cost and it still is. So that, competitively, they were at no disadvantage due to the increase in price, because they were already below what it cost us in their cost of materials.

Senator O'MAHONEY. Here is the situation. As you described it, in answering Senator Taft's question, your income in 1947 in dollars was the largest net income that Bethlehem ever had.

Mr. HOMER. That is right.

Senator O'MAHONEY. And with that record of very high income, you suddenly change a system of pricing on semifinished steel products on which you say that you have been losing money for some time, but since in tonnage figures it constituted only 1 percent of your output, I am at a loss to understand why, following your policy of price restraint, you should choose this period of highest net income to correct a price situation which you had followed over a long period of years.

Mr. HOMER. Well, I thought that I had handled that in here, but maybe I have not. Let me refer to that. As I said, we were operating at a loss on that particular item, and we felt that there was no particular handicap in that.

Senator O'MAHONEY. How long had you operated at a loss?

Mr. HOMER. All through 1947.

Senator O'MAHONEY. And previously? How about 1946?

Mr. HOMER. We do not have any figures here, Senator, on that. If you would like it, I can get it for you and submit it to you.

Senator O'MAHONEY. My point is that in 1947, with your very biggest income, you did not want to make this loss. Then you claim that you are following a policy of price restraint. There is no point in arguing the point with you. Your explanation has been made and it stands for what it is.

Now, did you increase the price on any other commodities?

Mr. HOMER. In January, you mean?
Senator O'MAHONEY. Yes, this year.
Mr. HOMER. Yes, we have increased the prices on certain other products.
Senator O'MAHONEY. In the magazine, Steel, for the February issue, on page 148, I find this report from New York:

> Bethlehem Steel Co. has advanced prices on butt-weld and lap-weld steel, one-half to 3 inches, it has been increased $7 a ton and $10 a ton on galvanized. The base prices of lap-weld pipe, 3½ to 6 inches, have been advanced $9 a ton on black and $12 on galvanized. This follows similar action by other leading producers recently.

Is that a correct statement?
Mr. HOMER. I would say approximately that was correct. I might like to add that that increase in January in our total average billed price per ton of all products which I referred to in my report as a total increase of 48 percent since 1939, if you will put in all of the increases that I have mentioned in here, plus the one that you just mentioned, it would only amount to 1.4 percent increase.
Senator O'MAHONEY. On what basis is that 48 percent computed?
Mr. HOMER. It is on the 1939 average of our billed prices as compared with the January of 1948.
Senator O'MAHONEY. Is that base price or what price?
Mr. HOMER. It is the actual billed price, and it includes all extras.
Senator O'MAHONEY. That includes the extras?
Mr. HOMER. Yes, sir.
Senator O'MAHONEY. Have you made any increases in extras recently?
Mr. HOMER. Oh, yes, there have been some; semifinished steel with extras, and I mentioned that in my report or my statement.
Senator O'MAHONEY. I mean any others during 1948.
Mr. HOMER. Not in 1948.
Senator O'MAHONEY. Now, you have covered for the committee, then, all of the items on which Bethlehem has increased prices, or have you?
Mr. HOMER. Since when, in 1948?
Senator O'MAHONEY. In 1948.
Mr. HOMER. Yes, that figure of 1.4 percent covers all of those changes. I will read them off to you if you want me to.
Senator O'MAHONEY. If you have got them in the record, I do not want to mention them again. I want to be sure that we were not missing anything. Now, we have this picture.
Mr. HOMER. It is not my intention to leave anything out, but to tell you the complete story.
Senator O'MAHONEY. I am sure of that, Mr. Homer. I did not mean to imply that you were not doing that.
Mr. HOMER. I do not want you to infer that I am leaving anything out; I am willing to give you any information that I can.
Senator O'MAHONEY. I certainly do not infer that, and I do not want you to think that I do. I am merely trying to get my own information in harmony with the information that you are willing to give us.
Mr. HOMER. I am willing to help you in any way that I can.
Senator O'MAHONEY. Now, we have discussed scrap. Also Bethlehem, with its highest net income, its increased price on certain com-

modities, and according to the same magazine, Steel, the scrap situation is becoming more eased. Here is a quotation from the Market News on February 23, 1948, from Philadelphia:

While there are no important changes in the steel scrap prices, the tone of the market is easier. Recently, several days of mild weather, along with the general settling of the market, has resulted in substantially heavier receipts at dealers' yards.

It says from New York that scrap is coming out more freely as a result of milder weather. In Pittsburgh, large additional tonnage of mill scrap purchases at formula prices were made last week, further bolstering the belief that scraps, scrap sellers, have become reconciled to the fact that mills will not pay more than current prices for steelmaking grades.

Cleveland: With most of the severe winter weather past, the belief is held that scrap flow will continue to improve, thereby helping to remove some of the buoyancy from prices.

Buffalo: Although demands show no immediate signs of easement, outside prices in the scrap market have been shaded slightly, as additional sales of steelmaking grades took place at the mills' price formula.

Now, do you think there is a basis for that comment in the magazine, Steel, that the outside look for scrap is apparently improving somewhat?

Mr. HOMER. I think that we have been through, I hope that we have been through, our most stringent period; the winter months are always the worst ones. There has been a slight easing, perhaps, in the market. However, we cannot definitely count on that. It is another hopeful thing. I might again read what I said in my statement, that if cost increases can be sufficiently restrained through wage stability and increased production efficiencies, it is our sincere hope that the attainment of our long-sought goal of issuing announcements of price reductions will not be too long deferred.

If our price-restraint policy is to enable us to achieve our goal of reducing prices, we need help from those from whom we are purchasing the materials used in the production of steel, and we are hopeful that they can stabilize their prices to us and in some instances, for example, in the case of scrap, reduce them.

Senator O'MAHONEY. Mr. Homer, inasmuch as you tell the committee that these price increases which you have put into effect on the semifinished products increase your total billings only one-twentieth of 1 percent, do not you think that perhaps Bethlehem might have helped considerably toward the creation of the proper frame of mind if you had not followed United States Steel, and if you had been content to go along on the old basis?

Mr. HOMER. We wanted to first get our prices in line with our costs, and that is not quite there yet, Senator.

Senator O'MAHONEY. I noticed your statement that you intend to increase the price of structural steel.

Mr. HOMER. I did not say that specifically. We are studying the matter now, and we may increase the price of structural steel. We have not done so yet.

Senator O'MAHONEY. Your statement was, and I am reading this.

Mr. HOMER. I think that we will have to.

Senator O'MAHONEY. I am reading from the statement:

> We are now reviewing the facts with respect to the new market price of structural shapes, and it is my belief that we must, within the near future, begin to sell on the basis of the existing structural shape market.

Now, do you wish the committee to believe that you cannot possibly, in the light of this very high net income range, struggle along without ordering that increase?

Mr. HOMER. I think that we may have to, Senator. That is still continuing with our price restraint policy; and again I want to repeat that the record shows pretty well that we have done a great deal in contributing to the stabilization of prices by keeping them down to the low point that they are at, at the present time, relative to other prices. We are losing money on structural shapes today.

Senator O'MAHONEY. How much are you losing?

Mr. HOMER. About $1.50 to $2 a ton, I would say.

Senator FLANDERS. I would like to inquire what you are making on? I thought structural steel was a main part of your product.

Mr. HOMER. No, Senator, it is not. It is one of our main products, yes, but it is about 15 percent of our total production.

Senator FLANDERS. That and heavy forgings I have always thought of as being the main products of your company.

Mr. HOMER. No; plates, rails, bars.

Senator FLANDERS. And rails, that is right.

Mr. HOMER. And tin plate, sheets, and I would say that they are the major products.

Senator FLANDERS. I just have a tabulation here of 27 percent bars, 18 percent structural shapes, 28 percent sheet and plates, 9 percent wire products, and 8 percent rails.

Mr. HOMER. We are making money on other products, as you have deduced.

Senator FLANDERS. I did not have to think very hard to deduce that.

The CHAIRMAN. Will not the increase in structural steel result in further increase in building materials, which is one of our high priced fields today?

Mr. HOMER. Well, Senator, I think that I mentioned that an increase of $5 a ton in structural steel would only give an increase in the cost of a building of about one-sixth of 1 percent.

The CHAIRMAN. I might read you a letter and ask for your comment on a letter from a gentleman I know, who says that, and this is under date of February 26:

> I note the Joint Economic Committee, of which you are Chairman, will talk on Tuesday, March 2, to the steel producers regarding their recent increases in steel prices. My company is probably the ranking independent fabricator of structural steel. Therefore, we are large buyers of shapes, bars, and plates for leading mills of the country.
>
> Naturally, we must pass on to our customers any increase we are compelled to pay the mills, which we are reluctant to do, as our prices are too high now. With the mills it is a case of replying to their customers of take it and like it, or do without.
>
> All price increases are arbitrarily put into effect by the mills without ever consulting their customers. The mills unquestionably are making a tragic error in raising prices so soon again, or at all for that matter.

Do you think that he is correct in saying that any increase in structural steel will result in increase in product which goes into building?

Mr. HOMER. I think that the published increases in structural, as we estimate them, would run somewhere around $3.50 a ton increase.

The CHAIRMAN. That is, is that what the steel companies have done?

Mr. HOMER. Yes, there are some extras; all of them are extras, as a matter of fact. There is no base price change, and that we worked out on a basis of figures that I already gave, and would be two-thirds of the $5 a ton, so that it would be two-thirds of one-sixth of 1 percent, which would be one-eighth of 1 percent.

The CHAIRMAN. It is not large, but the point, it seems to me, is the psychological effect of starting this thing up again, when there was some hope that it was fairly well stabilized. That is the thing that I have been interested in, and it seems to me the steel companies ought to be interested in it also.

Mr. HOMER. Of course, we have, as I outlined in my report, the problem of financing the facilities that we are constructing or desire to construct in the future. We have got to make enough money to be able to borrow money to a certain extent, and also to set aside some money out of our earnings for that particular thing.

Now, if we do not earn enough money, you do not attract the investors, and if you do not earn enough, you do not have enough earnings yourself to accomplish what you are after. As I outlined, we have a conflict going on of the restraint price policy on one hand, and we are trying to keep our prices down and profits down to a minimum; and on the other hand, it defeats the very purpose of going through with your construction program.

So, even though those figures, the $51,000,000 that we earned in 1947, are the largest in the history of the company, we still have a problem today in determining how we are going to finance the program that we have ahead of us. Now, that is our biggest program that we have ever had, and, as I outlined, it is a real problem ahead of us.

Now, if we could equalize all of our profits on all of our products, which is all that this is trying to do, and get all of them out of the red, there might be some hope for some adjustments being made on some of them that we are not adjusting. That is a question of what is your average return. Here we are faced with some products that are being sold below cost, and they are really causing a decision today, and we are merely equalizing as far as we can, when the opportunity occurs, and the net result is a very small one, and as far as the spiral of inflation is concerned, we feel that we have already contributed to a tremendous extent in trying to offset the increases that have been occurring. But when you look at the records, our share of that has been very, very much less than a great many other industries, and we have gotten to the point where there is a real question of whether we can go any further, or else we will just have to stop expanding, and stop our increased-capacity program.

Senator FLANDERS. Mr. Homer, even your expansion program is affected by the continuance of inflation?

Mr. HOMER. That is correct.

Senator FLANDERS. And if it continues, your expansion program is going to cost you that much more? The difficulty in this thing, without Government controls, has seemed to be to find a place where you could take hold of the moving mechanism of inflation and apply a brake to it at some point. That point is always at some other point than where you and I happen to be standing, and when we go to that point and ask the man who stands at that point whether the brake can be applied where he stands, it's always somewhere else.

There is not a single point in labor or management or agriculture which cannot make an excellent case of itself in my experience, very much of the same sort as the excellent case that you have made for yourself and that Mr. Fairless made for his company this morning. Yet, the fact remains, it seems to me, that the most effective place to do something publicly, psychologically, effectively, lies in some dramatic spot such as that of the steel industry.

I am just making that suggestion for what it is worth, realizing that for you, the same as for everybody else in this entire cycle, the spot seems to be somewhere else than where you stand.

Mr. HOMER. Senator, I appreciate the difficulty, and I have thought about that problem a great many times, and it faces us today, as to how we can start this thing or stop this thing. I agree with everything that you say, and I would be very glad to sit down and discuss with you how we might do something, but I do not see that it is entirely up to the steel industry to do something spectacular today, because when you analyze the situation, they have already done something that is spectacular in relation to what others have done.

Now, we are willing to do our share, and we are doing our share, and we are perfectly willing to consider any program that might be in the public interest. We would welcome it; but I do not think it is as simple as just to make a general price reduction.

Representative RICH. Mr. Homer, in 1946 you made a gross profit on your sales of 5.3 percent on the dollar. In 1947, you made a gross profit of 4.9 percent on the sales of your business. Do you think that that is an exorbitant profit?

Mr. HOMER. No, sir.

Representative RICH. Do you think that that is an average profit?

Mr. HOMER. I have already stated, Mr. Rich, that we consider that that is low, and I already mentioned in my statement that in looking back over our record, that nearer 10 percent would be a fair return.

Representative RICH. That is considered in the average business?

Mr. HOMER. In the average business, and I referred to the President's report where they have analyzed the situation, and it looks in that report as if 4.9 is relatively low.

Representative RICH. Now, in 1947, you made $51,100,000 and that is the largest profit that you have ever made in your business?

Mr. HOMER. Yes.

Representative RICH. On the same year, 1947, you paid to the Federal Government $33,900,000 in taxes, did you not?

Mr. HOMER. It sounds right. I will check it. It was Federal taxes based on income, about $31,000,000.

Representative RICH. That left you $26,000,000, that was left?

The CHAIRMAN. The $51,000,000 is after taxes.

Mr. HOMER. Dividends came out of the $51,000,000 and left us about $26,000,000.

Representative RICH. How much dividends did you pay to your stockholders?

Mr. HOMER. Six dollars a share.

Representative RICH. On a common share of stock? Do you have any preferred stock?

Mr. HOMER. Yes, sir.

Representative RICH. What do you pay on that?

Mr. HOMER. Seven percent.

Representative RICH. Now, you are going to establish a program to spend $100,000,000 for expansion of your business, which the Government has asked you people to do?

Mr. HOMER. That is right.

Representative RICH. And with the $28,000,000 left, you are going to have to get new capital of about $75,000,000 to complete that program?

Mr. HOMER. That is right.

Representative RICH. How are you going to raise it?

Mr. HOMER. Partly from earnings and partly from borrowing, and we have some depreciation amounts that can be applied for that purpose. The total program is $210,000,000 that we are faced with now.

Representative RICH. And it is going to be no easy proposition for you to go ahead and put that into effect?

Mr. HOMER. It is a very difficult problem before us now.

Representative RICH. Are you doing it for the benefit of the stockholders, or are you doing it more because the Government wants you to increase your property?

Mr. HOMER. Both. I would say both.

Representative RICH. That is a good answer.

Mr. HOMER. I think that I had better be honest with you.

Representative RICH. The question was asked: Why did you increase your price this year? I have just looked over on page 7 of the statment that you made and on your 1936 to 1939 averages you say that you have increased the average hourly wage of your earners 95 percent. How many employees do you have?

Mr. HOMER. About 140,000 in all of our operations, at the present time.

Representative RICH. Then you paid about 140,000 people 95 percent more than they got in 1936 to 1939 on the average?

Mr. HOMER. Yes; I would say that that was substantially correct, if we had the 140,000 back in 1939; it would be a little difference in employment.

Representative RICH. Your price of coal has gone up?

Mr. HOMER. I will just correct myself on that one. We would pay the 140,000 employees we have now 95 percent more than those same employees would have received back in 1939. Does that clearly answer the question?

Representative RICH. Now, your coal increased 93 percent and your scrap 155 percent and your fuel oil 180 percent, and your coke 128 percent, limestone 80 percent, and copper 95 percent, and tin 100 percent, and lead 200 percent, and zinc 131 percent. Is there any reason why you should have increased your prices this year over 1946, when you paid those increases? How much of that increase did you have on your plant in 1947 over 1946?

Mr. HOMER. I do not think that we have those figures here, but I know it is a substantial increase. If you would like us to go into that, we will do so.

Representative RICH. I do not want you to furnish it.

Mr. HOMER. I think that we have some figures here.

Representative RICH. I am just interested to know why you increased your prices in 1947 over 1946. I know in my business, and I am in business, that the increases in the prices of 1947 were great over what they were in 1946.

Mr. HOMER. I am having some of the main ones figured out for you. It will only take a minute.

Representative RICH. Let us go to some other question while he is figuring that one out. You called attention here on page 10 to something that interested me very greatly. I am going to quote you:

> We are looking to the Government to follow sound practices in the conduct of its fiscal and financial affairs, so as to contribute to the reversing of the spiral of costs.

I want to tell you that you hit the nail on the head there. I do not know of anything that is raising the prices, the costs to the people of this country more than the Federal Government is doing in the way they are spending money. That is the thing that should be uppermost in the minds of the people. But the people to not get the facts, only when some corporation raises their prices, and especially a lot of people that sit up behind the counter and ask the other fellow a lot of questions.

They do not consider that it is the high cost of Government expense that is increasing the price to the American public; and I am glad that you have brought that statement out here, because I think that we ought all to consider that and consider it carefully.

Mr. HOMER. I am glad to hear you say that, because we feel just the same way about it, that that is a very important item, and the reductions in the cost of running our Government will be very helpful in assisting and in reducing this inflationary trend.

Representative RICH. We are not only trying to take care of our own people in our own Government, but we are trying to take care of, now, every government all over the world, and you think that we can do that?

Mr. HOMER. I know it is giving us difficulties in our business, just as I have outlined, to accomplish what we are trying to do in the face of the inflationary tendencies.

Representative RICH. Would it not be a good thing if you were unable to get scrap and you have to pay $40 a ton for scrap, if some of these foreign countries would load their ships that we are sending over there with food and with the steel that you are making, load them up and send them back with scrap, so that you could buy scrap ar $20 a ton?

Mr. HOMER. We would be delighted to be able to do that.

Representative RICH. You would be glad to pay them $20 a ton or $30 a ton for the scrap that they had loaded up and sent back?

Mr. HOMER. As a matter of fact, we are bringing 1,000,000 tons back from China for just that particular use, and it is paying us to do it, although it is at a high price.

Representative RICH. You did that yourself?

Mr. HOMER. We have done it ourselves, and we handle that ourselves.

Representative RICH. Would not it be a wise thing for the Federal Government in making these deals with these foreign countries to get them to get up and then go to work and load a lot of that junk that we have over there that belongs to America, load it on those ships and bring it back so that our steel companies could use it?

Mr. HOMER. We are given to understand that there is a great deal of scrap in Europe that could be brought back here just as you described, and would be of great assistance to us in this country in helping reduce the cost of steel.

Representative RICH. I hope that we can make some kind of a deal with these foreign countries where we can get something in return for what we are sending them, and do you believe that that would help cut down the cost of Government, or the cost of living in this country?

Mr. HOMER. If the price of scrap is lower than what is now the case, by that process of getting it in here, I would say it would have a great bearing on the cost of steel, and therefore be helpful in reducing prices.

Representative RICH. I quite agree with you, and I think that if Congress would do something to cut down the cost of Government, that we could help materially, and we would not be seeing the things that some of our corporations are doing in this country, and we would be looking to taking care of the American people and American business. If you have got a few of those prices, I will not ask any more questions, because I think that I do not see anything wrong myself, personally, with the business that you fellows have been doing; and when you compare the prices that you have advanced, your steel in the last 5 years, you are way below the prices of commodities for practically every other line of commodities.

Mr. HOMER. I do not know whether you have my booklet that has a lot of these charts in it. That shows you just that.

Representative RICH. I am not a stockholder, and probably you did not send me one.

Mr. HOMER. This is something that I have furnished to the committee here.

Representative RICH. All right.

Mr. HOMER. It shows it in chart form, and you can very readily see what the difference is. I have had an opportunity to have calculated some of the increases on material costs, in 1947 over 1946, in round figures. It indicates that fuel oil has increased 26 percent, scrap 80 percent, coal 17 percent, tin 32 percent, coke 20 percent, lead 27 percent.

Representative RICH. I will venture that those prices have more than offset the price that you have made in the amount of billets that you are selling to the general public, and naturally, you cannot help but remember this adage that was in the plant I was in in one time that was about to go bankrupt because I just go into it, and I am sorry; it says, "Count that day lost when low-descending sun, finds goods are sold for less than cost and business done for fun."

Representative HUBER. I just wanted to make an observation for the record that some of the prosperity which your company and all other companies enjoy is due to the war that we have fought, and a great part of this expense, at least $7,000,000,000 of it, is for the sacrifices, to pay for the administration of the Veterans' Administration, for those who made this victory possible.

Senator Flanders said something about wherever the other fellow is standing, and I thought that his native New England at Newburyport a few months ago was going to take care of this thing for us, but that seemed to fizzle out.

On page 2 you mention that we are selling these steel products at a substantial loss, or at about the cost of scrap. "Even after the recent price increase we are still selling these products at a loss."

Now, if that is not a military or trade secret, why are you still selling those at a loss? How much would you have to sell them at in order to make a normal profit?

Mr. HOMER. Well, to answer your first question, we are selling them at the price that we do to keep them competitive and meet competition in selling these products. There is one point that I think that I might bring out here in the testimony, of this morning that was not quite clear, that there are products, semifinished products, that are used in our regular operations, and there are semifinished products that are sold outside, in our case a very small percentage, say 1 percent.

The outsider may manufacture a finished article that might be somewhat similar to what we manufacture. He was being sold his semifinished material at a price lower than our cost for the same article, so that we had a definite handicap in competing with him in the outside market.

The increase in price that was recently put in does nothing more than equalize him with us. As a matter of fact, we are still at a disadvantage with him. I wanted to bring that point out so that it was clear, in response to, I think, a question that was put to Mr. Fairless, that the outside manufacturer who purchases our semifinished products has to increase his price and pass it along. My answer is "No," because he has already enjoyed an advantage that has been taken away from him no more than to equalize with the price of the semifinished product that we have to use in other steel companies, in their finished articles.

Representative HUBER. Be that as it may, Mr. Fairless said there was no sound business reason for selling anything at a loss, so I just wondered why not put it up to where it should be?

Mr. HOMER. I agree with you on that, that that is another reason, but I just was answering a question that came up as to whether or not this was an inflationary trend, to increase the price of semifinished steel; and my answer to that is "No," because when you analyze what has happened, the outside producer using semifinished steel does not have to increase his prices because all that has been done is just to bring him up to be equal with us, I assume; also, with the steel corporation or any of the other steel people that are manufacturing this same article.

Representative HUBER. You quoted in your statement several times from the President's economic report. Should I infer from that that in general you approve of the President's economic report?

Mr. HOMER. No. I do not think that you can infer that from my statement. I have selected certain extracts from it that I thought were pertinent to my particular presentation.

Representative HUBER. That is all.

Senator MYERS. Mr. Homer, of course, we in Pennsylvania realize that you have one of our great industries, and you have contributed much to the building of Pennsylvania and to giving employment to tens of thousands of people. However, I cannot yet subscribe to the statements of my colleague from Pennsylvania, Mr. Rich, and be completely satisfied with the price increase that you have recently announced.

I am not carrying a torch for anybody, nor do I intend to make any political or semipolitical speech. We heard all during the summer, in every hearing we attended, the statement that you just made, that the purchaser of your product who must pay more for the product need not necessarily pass on that increased cost to his customers, and that is something that I just do not understand. You are claiming that an increased price is necessary because your costs have increased. Do you mean that your customers should accept the increased cost to them from you and absorb it, and therefore take less profit than they have been making heretofore?

Mr. HOMER. That is exactly what I mean, because he probably was making more than we were making or anybody else in the steel industry on that particular product, and therefore, if he wants to contribute something to the over-all situation, he will only be putting himself on the same basis that the rest of us are on.

Senator MYERS. Do not you see that they all say that they are not making any exhorbitant profits, that they are just getting by, and that when their costs are increased, they must pass it along to old Mr. Consumer?

Mr. HOMER. Maybe I can answer that this way, that in effect, what was happening was that we were paying part of his costs and part of his legitimate cost was being paid by us.

Senator MYERS. That may be your interpretation, and that may be so.

Mr. HOMER. That is a fact.

Senator MYERS. I do not think that it follows logically that he is going to absorb it. I think that he is going to pass it on, too.

Mr. HOMER. That is his problem and not ours.

Senator MYERS. Of course, it is his problem, but all during the hearings that is what we heard.

Mr. HOMER. Relatively he does not have to do it.

Senator MYERS. Relatively nobody has to do it with the tremendous profits that are being made, and I do not say exhorbitant, I say tremendous; and when you say that your only response to a question is that you are making 4 or 5 percent on dollar sales and you should make 10 percent, it all depends on the volume of your dollar sales. If your dollar sales are $100,000, the profit on dollar sales is much different from what it is if your profits are $1,000,000. So, I do not think that that comparison is a fair comparison.

And you talked about prices in 1939 and labor having increased 95 percent. Was that not your statement?

Mr. HOMER. That is right.

Senator MYERS. I find that your net income in 1939 was $26,000,000 and today it is $51,000,000; so your net income, and I am not criticizing and I am not condemning it, but the pattern follows the same, your net income has gone up nearly 100 percent.

Mr. HOMER. What was the volume of business?

Senator MYERS. Of course, the volume of business is greater; but in 1939 your stockholders were earning $5.75 on each common share, and today it is $14.95, so the pattern follows all along the line.

Mr. HOMER. You did not have inflationary factors that you have now.

Senator MYERS. Of course, you did not, and you have made a very fine point when you compared the prices of 1946 to 1947.

Inflation hit us awfully hard after June of 1946, and because of a little shake-up in the commodity market, a small shake-up, there is no indication that the inflation is over. In fact, some of those prices are creeping back again. I think some of us were lulled into a false sense of security by a little shake-up in the commodity market. But getting back to the subject at hand, you undoubtedly are producing at full capacity today, are you not?

Mr. HOMER. Just as high a capacity as we can, subject to the restrictions on certain materials like scrap or fuel oil or whatever the factors are.

Senator MYERS. What restrictions do you refer to?

Mr. HOMER. We cannot get enough scrap, that has been one of our limitations.

Senator MYERS. There are no governmental restrictions that you refer to?

Mr. HOMER. Oh, no; they are restrictions on the ability to get products, to get sufficient quantities to enable us to operate at full capacity.

Senator MYERS. And I surmise that you have orders on your books that will continue your full-capacity operations for some time to come.

Mr. HOMER. Yes.

Senator MYERS. How long a period would you say, Mr. Homer?

Mr. HOMER. It depends upon what products there are, of course, but I would say that 5 or 6 months, for that time it looks as if we would be going along with the orders on the books, and I would not be surprised if things stayed the way they are, that we would have a pretty full operation through the rest of the year.

Senator MYERS. Now, this increase in cost amounts to what in gross sales for Bethlehem Steel, Mr. Homer? I think that you said $500,000 for semifinished products, but over all, it will be what?

Mr. HOMER. The figure that I gave of 48 percent, you mean?

Senator MYERS. No; these increases that you have recently announced mean what in dollars? How much do they mean in dollars?

Mr. HOMER. The blooms, billets, and slabs result in the $456,000 for the year; that is, if the price in effect now was in effect for the whole year, as compared with last year's price.

Senator MYERS. Approximately $500,000?

Mr. HOMER. Yes, sir.

Senator MYERS. Is that the total increase of all of the products on which you have announced an increase?

Mr. HOMER. Not all of them.

Senator MYERS. What is the total?

Mr. HOMER. About $1,300,000 for January if all price increases had been in effect from January 1.

Senator MYERS. That is the gross?

Mr. HOMER. Yes.

Senator MYERS. What are your gross sales?

Mr. HOMER. $1,000,000,000 for the year.

Senator MYERS. Do not you think it would have been much better public relations to absorb that infinitesimal sum rather than to have the newspapers all over this State and throughout the country condemning the industry for again starting this spiral of inflation? That is $1,000,000 out of $1,000,000,000. It would seem to me it was poor public relations. There was no reason to bring this condemnation down upon you and the rest of the industry, because that is all it amounts to.

Mr. HOMER. I go back a little bit, and I hope that I have been able to give you an explanation of what the steel industry has been doing, and the contribution that they have been making in relation to what has been done in other directions.

Senator MYERS. I think the steel industry has made a splendid contribution. I do not think that we should compare the steel industry with the bad boys, and I do not think that we should compare the steel industry at this moment with anybody else. It is a question as to whether it was worth while for a picayune—particularly with regard to your company, and perhaps I should withdraw that word with reference to $1,000,000—but merely to receive another $1,000,000 in gross sales when your gross sales amount to $1,000,000,000 seems to me to have been a foolish procedure.

Let me ask you this: Have you historically made a profit on every item that you produce?

Mr. HOMER. No.

Senator MYERS. In any year?

Mr. HOMER. I would have to look that one up.

Senator MYERS. Well, I am just wondering if you have. I understood you to say that probably we cannot look for a leveling-off until you get into the black on your other items. Now, I do not think that you were ever in the black on all of your items.

Mr. HOMER. I do not mean to infer that, that we were always in the black on all of the items. I do not think that that is so; I do not think that we have been that way.

Senator MYERS. Now, you were attempting to mention various items which you have been producing at a loss or at a very low profit, and it seems to me that it is your purpose and your intention, at least if not to get out of the red, to increase your margin of profit on these items and all of these other items.

Mr. HOMER. We are endeavoring to get out of the red on certain items in order to equalize some of the profit situations on different products, and as I outlined before, with our over-all profit down to 4.9 percent, with our construction program raising questions as to how we are going to finance it, one of our first steps before we can hope to do very much in changing our prices downward is to get on an over-all generally equalized basis where our products are resulting in profitable operations.

Then, if you have certain items that would bear a reduction in price, you can give consideration to it and assist the situation in that way.

Senator MYERS. We do not seem to be approaching that period, though, Mr. Homer, when consideration can be given to that very question which you have raised.

Mr. HOMER. Well, based on the figures as I presented them to you, it would look to us as if we are not there yet.

Senator MYERS. And, of course, figures are confusing, when you mention four-point-something on dollar sales. I can throw back an increase of net income after taxes of $21,000,000 between 1946 and 1947, so it all depends on the base one selects for computation. But I noticed on page 2 you said that these certain items of blooms and billets and slabs had always been sold on a gross-ton basis. Had that been historically true in your company?

Mr. HOMER. Yes.

Senator MYERS. Well now, when you announced this increase, did it appear to be a dollar increase or just a change from gross to net tonnage?

Mr. HOMER. It was an increase of dollars in the price of the product.

Senator MYERS. How much?

Mr. HOMER. About $5 a ton.

Senator MYERS. What did a gross ton of any of these items, billets or blooms or slabs, cost before the announcement?

Mr. HOMER. I say, my figures in here are net tons, but I can look that up for you and give it to you. At the top of page 2 I say that although quoted on a gross-tonnage basis, it was equivalent to $40.20 per net ton for the rerolling product, and $49.10 per net ton for the product used for forging.

Senator MYERS. In other words, the former price of $40 for a gross ton—I will use that basis—now becomes $40 for a net ton?

Mr. HOMER. That is right.

Senator MYERS. So there was no difference in the figure itself, there was a difference in the quantity delivered to the purchaser?

Mr. HOMER. That is right.

Senator MYERS. Now, do you not think that if the industry wanted to justify its action on the basis of cost increases, that it would have been much better to continue the historical pattern rather than as one of the Pittsburgh papers said, Mr. Homer, "to cover up the increases by changing the method of fixing price quotations"?

Mr. HOMER. I think that I must state that I do not think that there was any intention of covering up anything. It was a situation that had existed for some time, where a certain product, the basis of the price on that product was out of line and very confusing with the method used in pricing practically all of our other products.

Senator MYERS. But those items had been historically sold on a gross-tonnage basis, had they not?

Mr. HOMER. With so few customers concerned with this particular thing, it seemed like a very small item, and as long as the base was being changed, we certainly had no objection to going along with it. If the market base had changed, and we felt it was confusing in the past, why, it was an improvement and something that was desirable.

Senator MYERS. I merely point that out because you undoubtedly know that one of the papers in Pittsburgh had criticized the industry for the method that was used.

Mr. HOMER. I think people read things into what they see quite often that do not exist, merely to become a little spectacular and get the headlines.

Senator MYERS. This was not any individual; this was an editorial from the Pittsburgh Post-Gazette, as of February 23, and no one was trying to get the headlines. This was an editorial.

Mr. HOMER. That does not make any difference.

Senator MYERS. It was not a political speech; it was merely an editorial from one of our big dailies in that area, and they went on to say this:

> Why were the increases announced when wage talks were pending with the United Steel Workers? Why were the increases announced simultaneously by all major producers, and they share a common profit position?

Immediately those questions arise, not only in the minds of some of our citizens, but those questions arise in the editorial rooms of our newspapers.

Mr. HOMER. I repeat that people are always looking for something that is not there, to sort of provide something that may be a little spectacular, but if I have failed in my presentation to give you that picture, and why it was done, I am very sorry.

Senator MYERS. I have not said that you have failed.

Mr. HOMER. I will give you again my statement, and ask you if you would again read it.

Senator MYERS. I think the increase itself was, indeed, spectacular, as well as those statements that may have been issued by others referring to the increase.

Mr. HOMER. I cannot agree with you on that, Senator, because it was a very small item, and it was only made spectacular because or for the same reason that I have just outlined, that some people like to read a lot of things into things, between the lines, that do not exist.

Senator MYERS. Mr. Homer, it may be a small item, but United States Steel said here this morning that it affected at least 25 percent of their production and that is not a small item.

Mr. HOMER. It only affected 1 percent of ours.

Senator MYERS. But it affected a large portion of the economy. Now, one other matter, and then I am through.

Mr. HOMER. You are talking to the wrong man on that.

Senator MYERS. I did not hear that last remark.

Mr. HOMER. Go ahead, I am sorry.

Senator MYERS. One other matter there; you referred to your program of expansion and the moneys that you intend to expend on Bethlehem's expansion program. What is that program of expansion, Mr. Homer?

Mr. HOMER. We have furnished you a copy of the report to employees, the Bethlehem Review, and I believe that you have it before you.

Senator MYERS. Could you tell me in a few words what you plan to do?

Mr. HOMER. That has a description of the expansion program as to what we have in mind. Do you want the figures?

Senator MYERS. Oh, no. Is it expansion of the finishing mills, or is it an expansion of the iron-producing, raw-steel facilities?

Mr. HOMER. I cannot give that to you. The basic steel program that is contemplated in the $210,000,000 expansion program would run about 60 percent for a basic steel program of increased capacities, and so forth. The increase in finishing capacity would run about 30 percent, and the balance of miscellaneous items, such as power plants to operate the new facilities would run about 10 percent.

Senator MYERS. I am glad to hear that, because the criticism has been raised on the part of some that the expansion, and I do not mean of Bethlehem but the entire industry, has been more in the finishing mills rather than in basic steel, and therefore, the end will be no greater capacity but merely take greater capacity on the finishing end.

Mr. HOMER. I have seen some of those comments, and I am glad to be able to give our figures here so that you will know what the relationship is.

Senator MYERS. If 60 percent of your expansion program is on basic steel, I think Bethlehem should be complimented; that is what we need, more basic steel. I think that that is encouraging if you are devoting 60 percent to that.

The CHAIRMAN. Mr. Homer, did all of the producers of semi-finished steel raise this price?

Mr. HOMER. I do not know, Mr. Chairman.

The CHAIRMAN. You do not have any information as to whether any of them did not make this increase?

Mr. HOMER. I have no information.

The CHAIRMAN. How did it happen that the announcement of all of the companies came out the same day, when you describe the fact that United States Steel Corporation made the advance some 4 or 5 days ahead of that time? Did they keep that secret or something? How did it happen that all of the announcements came out one morning, all steel companies advanced their prices $5 a ton?

Mr. HOMER. I cannot explain that. They did not all come out at the same time.

The CHAIRMAN. I certainly remember reading it in the paper.

Mr. HOMER. It happened to be that way.

The CHAIRMAN. I read in the newspapers one morning that all of the steel companies advanced their price $5 a ton. You say the United States Steel Corp. actually made this advance 4 or 5 days ahead of everybody else; is that right?

Mr. HOMER. Yes; that is what we understood, that we made ours on the 18th and theirs was on the 13th, and we heard about it, of course, shortly after the 13th, but it did not come out in the papers. The big splash in the papers was around the 20th, I think.

The CHAIRMAN. How did it happen that that came out? Was that some press association or what was the thing? How did it happen to come out?

Mr. HOMER. I have been trying to find that out myself, Mr. Chairman. I have not the answer to it, and I do not know whether it was some of the publications that follow those prices, put emphasis on it, and somebody picked it up, or whether there was misinformation given out that was of a spectacular nature that might have been picked up.

The CHAIRMAN. It was carried on the front page of every newspaper in the East on the same morning.

Mr. HOMER. I am wondering myself about that, why it received such an extensive coverage.

The CHAIRMAN. I have one other thing. You have made no agreement of any kind with the steel workers' union relating to their wages for the coming year?

Mr. HOMER. No, sir.

The CHAIRMAN. And there is no connection, so far as you know, between any such agreement or contemplated agreement and this increase?

Mr. HOMER. Absolutely no connection.

Senator MYERS. I understood you to say that this increased price of semifinished steel is not yet sufficient for you to recoup your losses on that particular item.

Mr. HOMER. We are still producing that at a loss.

Senator MYERS. Since I understood you to say your basic reason for increasing the price was to recover your losses, why did not you increase it sufficiently to recover your entire loss so, at least, you would break even?

Mr. HOMER. Because we met the market, the competitive market.

Senator MYERS. So then, although your basic reason for increasing the price was to recover your losses, you just met the price that United States Steel Co. may have increased its price to?

Mr. HOMER. We had met the market before, and when the price went up, we met the market as it existed then, but it did not bring us out of the red.

Senator MYERS. So that the increase was for two reasons: To recoup your losses and also meet the prices of the other companies?

Mr. HOMER. No, we met the market, and the reason for it was, as I outlined to you, that we were suffering a loss and we raised our price to meet the market.

The CHAIRMAN. Are there any other questions?

If not, we thank you very much, Mr. Homer. That is all, unless you have something further to say yourself.

Thank you very much.

At this point in the record, I will insert a letter from Charles M. White, president of the Republic Steel Corp., stating the position of the Republic Steel Corp. on the same price increase. The story is somewhat the same as that of the two companies which have testified. The semifinished steel represents 6 percent of Republic's shipments.

(The letter is as follows:)

REPUBLIC STEEL CORP.,
Cleveland 1, Ohio, February 28, 1948.

Senator ROBERT A. TAFT,
Senate Office Building, Washington, D. C.

DEAR SENATOR: It is high time some of the real facts are brought forth in connection with the recent price increase in semifinished steel and I sincerely hope your committee will turn the spotlight of sanity on this badly confused subject. Seldom have I seen anything so misrepresented in the public press and elsewhere, whether through ignorance or design I would not know. Semifinished steel represents approximately 6 percent of Republic's shipments, the recent price action bears not the remotest resemblance to a general price increase, though it has been so labeled almost universally. The idea that the small nonintegrated steel producer is pinched by this action also is largely erroneous. Substantially more than half of Republic's semifinished steel goes to manufacturers of forging products such as crankshafts on which there is no established price. A long overdue correction in this small segment of steel production can by no means be interpreted as a major adjustment in the over-all price structure. In Republic's case it is an attempt to arrest a progressively greater net loss on this class of product. With semifinished steel selling at only $4.50 per ton above the market price of the scrap and pig iron from which it is made, there is little possibility that any producer has been able to avoid red figures.

Semifinished steel showed a very lean profit even in the prewar years. In 1946 Republic made a small gross profit on this class of material, but the application of normal overhead charges converted this gross profit to a net loss. Our performance in 1947 grew progressively worse as wage and raw material costs continued to increase. Results by quarters on semifinished business show the following:

	Loss (percent)
First quarter, 1947	7. 1
Second quarter, 1947	16. 0
Third quarter, 1947	17. 4
Fourth quarter, 1947	20. 0

On July 25, 1947, Republic attempted to correct this intolerable condition. We announced price increases of $8 per ton on blooms, billets, and slabs of both forging and rerolling quality. Shortly thereafter some of the other major producers advanced prices on these products but to a lesser extent. This placed Republic in an untenable position commercially and on August 13, 1947, yielding to pressure from our customers, we reduced our prices to the general price level on forging quality steels but maintained our price on rerolling steel $2 above that of our competitors. Costs continued to advance at an accelerated rate. When we learned on February 13, 1948, from our customers and our field offices that the major interest had on that date increased semifinished prices by roughly $5 per ton, we welcomed the action and followed suit within 3 days, feeling that our position of last summer was finally vindicated. Oddly enough we have had no protest from our customers, most of whom realized that this adjustment was long overdue. The protesting has all been done in the newspapers.

While I have wearily learned to shrug off the repeated assertion that the men who manage America's steel industry habitually flout the public interest for their own selfish ends, I think it is germane to mention that we do have other interests, the principal one being corporate survival. Our task of replacing at our own expense equipment prematurely worn out by ruthless wartime operation and at the same time expanding capacity to meet the insistent demand for more and more steel is a colossal one.

The present earnings of Republic Steel Corp., and of the steel industry as a whole, are based almost entirely on high volume. Even in the record year 1947 our return on sales was a meager 4.77 percent. The industry average from 1909–27 was 10.5 percent. Unless this trend is checked we are headed for extinction or nationalization. We paid to our stockholders in dividends less than half of our net earnings in 1947, yet we had to reduce working capital by several millions to carry forward our program of plant improvement, expansion, and replacement.

Since the war ended Republic has spent or committed two and one-half times its net earnings for plant improvement and development of new raw material resources. We cannot continue much longer to dip into working capital for improvements and replacements. New capital in large amounts will be needed in the near future, yet there is nothing in our earnings record to attract such capital.

The investment fraternity correctly appraises the unsound foundation on which present steel profits are based, as the current prices of leading steel stocks will testify. It is a ridiculous situation in which new steel capacity theoretically can be purchased in the stock market for $14 per ton.

In the face of soaring costs the steel industry has shown remarkable restraint on prices. Since 1939 steel wages have advanced 85 percent, scrap has advanced 145 percent, coke has advanced 205 percent, yet steel prices show a modest 40 percent increase. I believe no other major industry can point to such a price record. Our present price structure in relation to costs is unsafe and unsound. The break-even point in steel today is much higher than it was prewar. Even a moderate drop in demand could quickly throw the whole industry into the red.

A fair and open appraisal of these and other facts by your committee will, I am sure, do much to clear away the fog of mispreresentation and misunderstanding with which our industry has been surrounded.

Sincerely yours,

C. M. White.

The Chairman. Mr. Batcheller, we thank you for coming. We wanted a representative of Big Steel and one of the more or less independent companies. I am afraid that I do not really know whether your company has shared in this increase or not.

STATEMENT OF H. G. BATCHELLER, PRESIDENT OF THE ALLEGHENY LUDLUM STEEL CORP.

Mr. BATCHELLER. As far as Allegheny Ludlum Steel Corp. is concerned, the price increases announced recently by us seem to be of little direct importance, since they affect only a small percentage of the company's products and the aggregate additional cost to our customers is only about $90,000 per month, equivalent to about 1 percent of a month's sales. Realizing, however, that any break in the national effort to hold the price line is regrettable, it is my intention to explain the necessity of such increases as simply and as frankly as I know how.

The policies of our corporation, as presented a year ago to our employees and to the citizens of the communities in which our plants are located, are very briefly as follows:

1. We try to meet our responsibilities to our employees and to the communities in which they live.
2. We pay good wages.
3. We make fair profits.
4. And most important of all, we want to prevent a "boom and bust."

In order that you may be in a position to understand clearly the facts of our somewhat complicated business problems in an industry with which you may not be entirely familiar, I would first like to outline for you very briefly a little background information concerning the nature of this company's business and the cost and earnings position of the company today.

Allegheny Ludlum is primarily a producer of special steels. Its principal products are a series of alloys of iron and other metals with the incorrodible characteristics of the noble metals and popularly referred to as stainless steels. Allegheny Ludlum, as the result of many years of intensive research, has developed and is producing special alloys for automobiles and for airplanes, and more recently has perfected and is making a new series of high temperature alloys necessary in the construction of jet engines and gas turbines. Our company has also pioneered electrical steels used in electric motors, generators and transformers, and all types of radio, radar, television and other electronic equipment, and it makes tool steels used for the cutting and shaping of all kinds of metals. We are only incidentally in the carbon steel business, as we merely purchase semifinished carbon steel for rerolling into carbon steel strip, but our carbon steel products find their way into unusual uses, such as tubing for gasoline lines in automobiles and aircraft, and for refrigerators and other such products.

To interject a sentence there, we are in the peculiar position of being in some respects an integrated steel company, and in some respects a semi-integrated company, and in some respects a nonintegrated company.

Much has been said about the year 1947 being a record year for profits of some industrial concerns. It was a record year for Allegheny Ludlum in some respects, but not for profits, and this is largely due to our "hold the line" price policy. Sales reached a new peacetime high, but rising labor and material costs, especially during the last three-quarters of the year, which were not passed on to the consumers, caused a reduction in profits compared to 1946, in spite of progress made in the installation of new equipment to lower manufacturing costs, and the adoption of new methods resulting from research.

I might interject a statement there to the effect that the ulitization of oxygen is a typical example of new methods introduced during the year to help offset other rising costs which were beyond our control.

The annual figures for 1946 and 1947 do not tell the whole story of these years for Allegheny Ludlum. Earnings for 1946 were considerably lower than they would have been if the steel strike had not all but wiped out the earnings of the first quarter of that year, and earnings for the whole year of 1947 were very materially higher than the annual rate of earnings prevailing at the end of the year, because costs increased very radically as the year progressed.

Let me be specific about this point. The price for every one of this company's major items of cost has risen substantially during the past year. These items include pig iron, steel scrap, semifinished steel, ferro-alloys, nickel and, most important of all, wages. For the price trend of these major cost items, I refer you to charts A, B, and C at the end of this statement. There are many other items of cost not shown on these charts, including freight, fuel oil, coal, and especially employee benefits, which have also shown substantial increases. The major cost increases shown on these charts are of the same order as those recited by the previous witness.

Despite these cost increases, no material change has been made for about 2 years in the prices of stainless steel, the company's major product. On other products, only moderate increases were made in selling prices during 1947, and these were not sufficient to offset even one-third of the cost increases occurring during that year. This is a practical demonstration of our policy of holding the price line. As a result, however, by the end of 1947 the company was actually absorbing cost increases which had occurred during that year to such an extent that monthly operating earnings, or earnings before taxes, had declined over 40 percent to a point where such earnings were well below the average for the preceding 10 years.

Late in 1945 the directors of Allegheny Ludlum initiated a program of plant expansion and improvement in the interest of increased capacity and lower cost, which when completed will involve expenditures of nearly $25,000,000. The company has already spent $9,000,000 on this program, from retained earnings of prior years, and is beginning to receive some benefit from it. The policy of holding the price line, in the face of radically rising costs, however, had such a serious/effect on earnings for 1947 that toward the latter part of the year it became increasingly evident that the plant program would be threatened unless one or more of several alternative policies were adopted:

1. The company could choose to stop the manufacture of items upon which it was losing money, but such a move would lessen steel production at a time when every ton that can be produced is important to the national economy, and that was unthinkable.

2. It could abandon the expansion and improvement program, but the long-run effect of such a move would curtail the production of special alloy products for which the need in new technological developments is constantly expanding.

3. It could reduce or discontinue the dividend on its common stock, which it has maintained at a moderate rate without change for 6

years, but the company is owned by 13,500 stockholders whose average holdings are only about 100 shares and who are justly entitled to a reasonable return on their investment.

4. It could go to investors in the capital markets for additional funds, but under conditions prevailing in the markets such a move is not now feasible.

5. Finally, it could raise selling prices where it would result in the least hardship to the public, to obtain in part at least the funds with which to meet its own increased raw material prices.

Regrettably, cost increases did not end with the year 1947. On January 1 the price of ferro-chrome was again increased $30 per ton and ferro-silicon $12 per ton, which were in addition to increases of $40 per ton and $24 per ton, respectively, in October 1947, but which did not affect our costs until January 1948.

The CHAIRMAN. Who controls those prices?

Mr. BATCHELLER. We buy from two companies, the Union Carbide & Carbon Co. and the Pittsburgh Metallurgical Co.

The CHAIRMAN. Are they made here, or imported?

Mr. BATCHELLER. They are made here in this country.

The CHAIRMAN. All right.

Mr. BATCHELLER. On January 9, pig iron was again increased $3 per ton and on February 13 carbon steel billets were increased by an amount equivalent to $7.30 per ton. During the same period freight rates were increased another 10 percent on top of a prior 10 percent rise in October 1947. The aggregate effect of these increases was a further rise in costs of at least $150,000 per month, and it appeared absolutely essential to obtain some immediate relief by making certain selling price adjustments. Accordingly, upward revisions in selling prices were announced by Allegheny Ludlum on certain grades of silicon steel, effective February 18, and on carbon steel strip effective February 19, which in the aggregate amount to about $90,000 per month.

The increase in the price of these silicon steels of $15, $20, and $25 per ton, depending upon the grade, was long overdue so far as this company is concerned, and such an increase has been actively under consideration by our officers for at least 6 months. Since the end of the war, costs of such silicon steel, which are influenced by pig iron, scrap, ferro-silicon and labor, have increased $40 per ton, whereas the selling price has increased only about $22 per ton and the company has experienced very substantial losses in the sale of such steel throughout 1947. The increase of $10 per ton in the price of carbon steel strip followed the increase in the price of carbon steel billets and is directly attributable thereto. The amount of this increase in selling price is about equivalent to the increase in the cost of billets and other cost increases affecting this product.

I cannot stress too strongly the necessity for preserving the continuity of operations of this company. Every day steel consumers are demanding increased steel production. Allegheny Ludlum has doubled its over-all capacity in the last 10 years and has increased its melting capacity in addition in the last year. Its program of plant expansion and improvement is less than half finished and it now appears necessary to seek additional funds to assure its completion. If earnings cannot be relied upon to take care of a reasonable part of the cost of this program, and if additional capital cannot be attracted, then the program will have to be curtailed, thereby impairing the ability of the company to serve its customers, its employees and its owners.

In conclusion, it seems to me to be perfectly clear that a company which has refrained from raising its prices, in spite of drastically increased costs, to the extent that Allegheny Ludlum has done, cannot reasonably be expected to absorb further cost increases and is entirely justified in making price increases necessary to assure it a fair and reasonable profit.

(The charts are as follows:)

CHART A

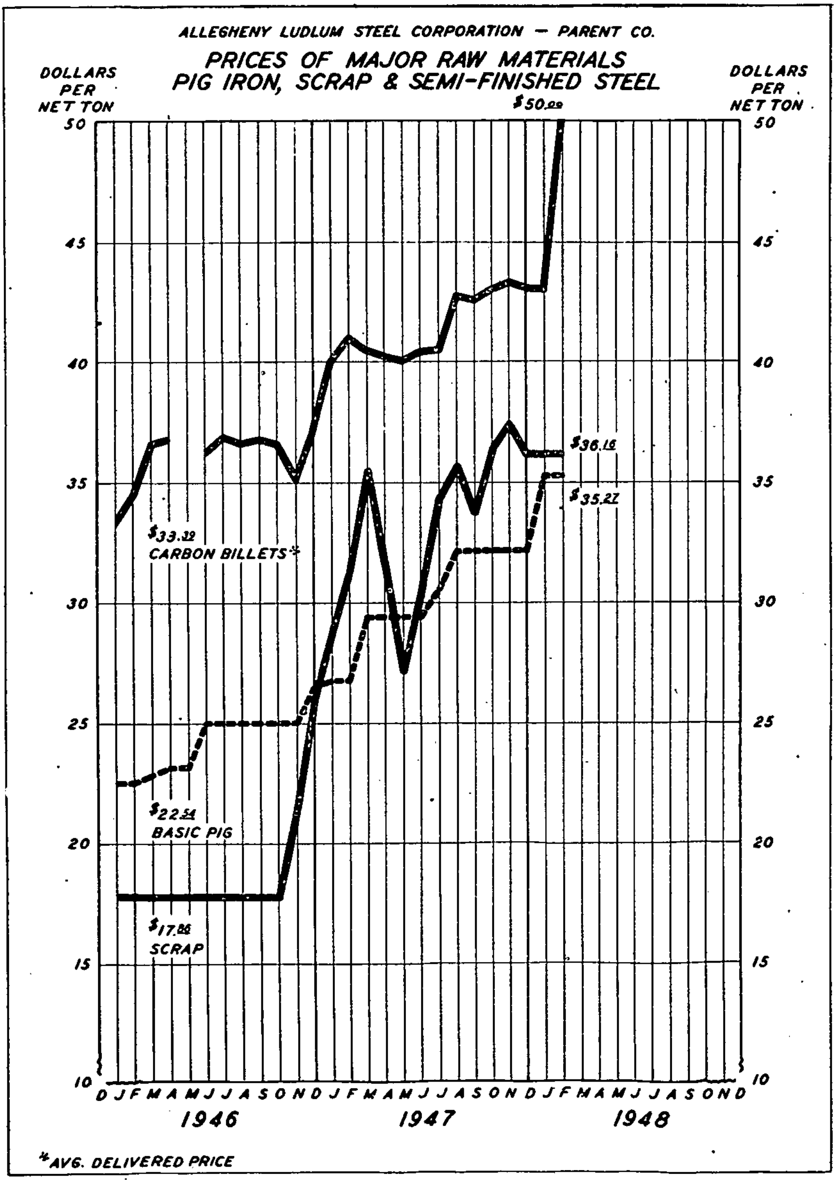


CHART B

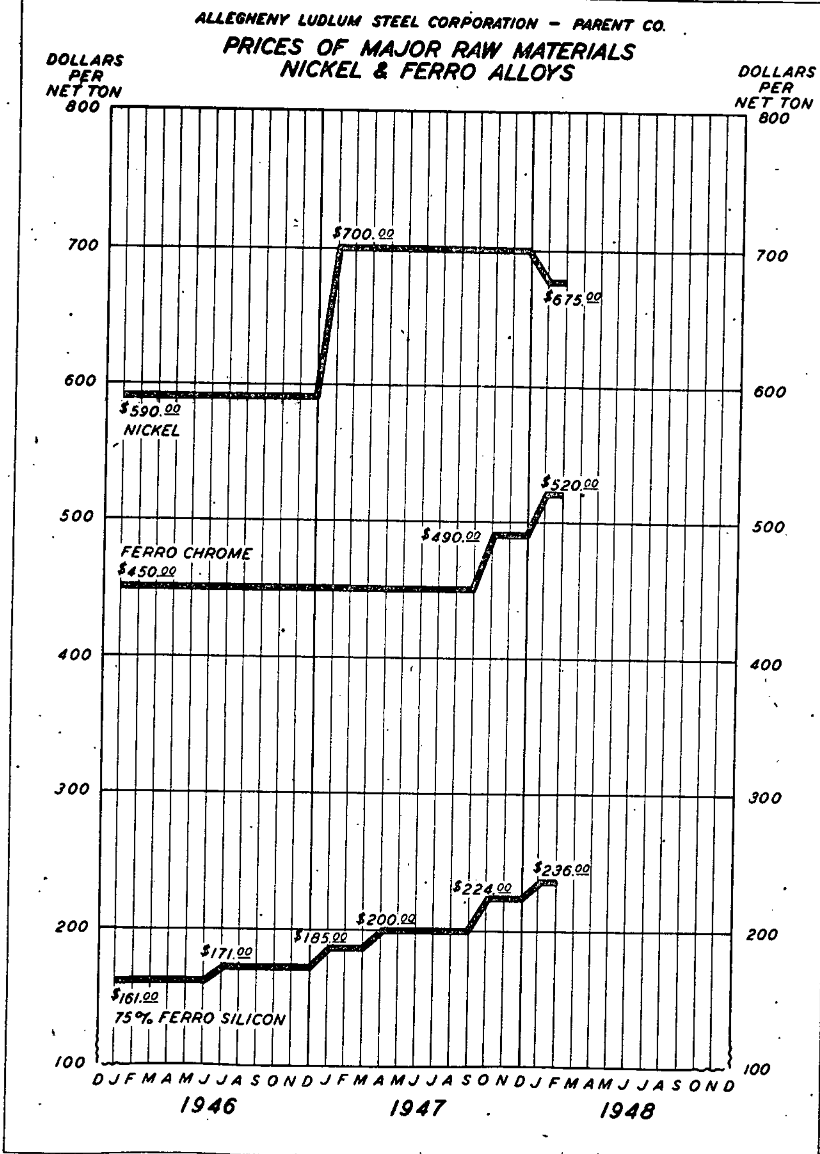
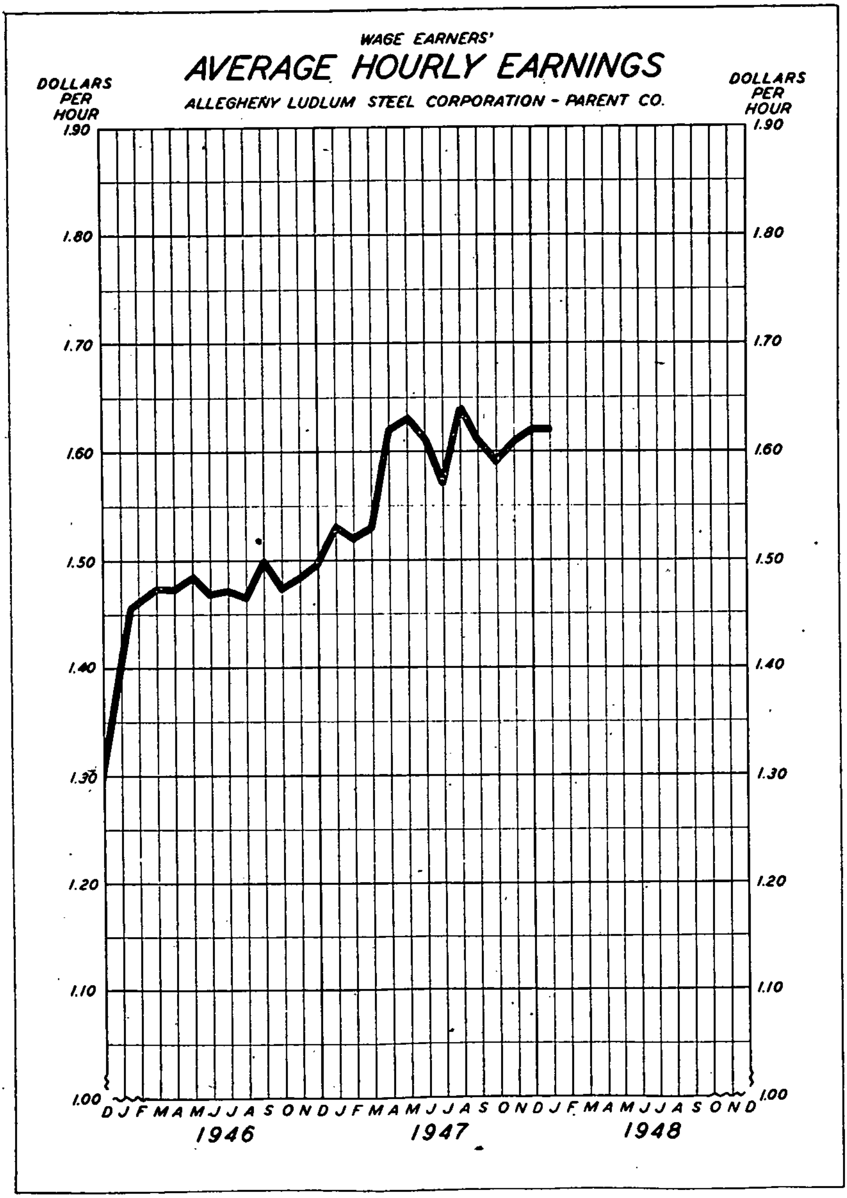

ALLEGHENY LUDLUM STEEL CORPORATION - PARENT CO.
PRICES OF MAJOR RAW MATERIALS
NICKEL & FERRO ALLOYS
DOLLARS PER NET TON
800
700
600
500
400
300
200
100
$700.00
$675.00
$590.00
NICKEL
$520.00
$490.00
FERRO CHROME
$450.00
$236.00
$224.00
$200.00
$185.00
$171.00
$161.00
75% FERRO SILICON
D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D
1946
1947
1948

CHART C


WAGE EARNERS'
AVERAGE HOURLY EARNINGS
ALLEGHENY LUDLUM STEEL CORPORATION - PARENT CO.
DOLLARS PER HOUR
DOLLARS PER HOUR
1.90
1.80
1.70
1.60
1.50
1.40
1.30
1.20
1.10
1.00
D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D
1946
1947
1948

The CHAIRMAN. Mr. Batcheller, how did you come to choose this same date, February 18th?

Mr. BATCHELLER. It was entirely a coincidence, Senator. We had our increase in the selling price of silicon steel, and it had no relationship whatever with the increase in the price of semifinished carbon steel billets. Our increase in the selling price of the carbon steel billets followed as quickly as we could decide the policy after we were notified by our supplier that the price of the semi-finished to us had been increased by $7.30 a ton.

The CHAIRMAN. You buy semifinished steel?

Mr. BATCHELLER. We buy semifinished products.

The CHAIRMAN. From different companies?

Mr. BATCHELLER. All from one company, as a matter of fact, at the present time.

The CHAIRMAN. United States Steel?

Mr. BATCHELLER. Yes.

The CHAIRMAN. And you were notified that that increase would be $7.30 a ton?

Mr. BATCHELLER. We were notified it would be.

The CHAIRMAN. That was the straw that broke the camel's back?

Mr. BATCHELLER. Yes.

The CHAIRMAN. This suggestion that people who buy semifinished steel were making so much money they did not have to increase the product, is hardly true in your case?

Mr. BATCHELLER. That may be true in some cases, but it is not in ours.

The CHAIRMAN. Are there any questions?

Senator MYERS. I think you put your finger on it. I was about to ask the same question.

I surmise you heard the testimony of Mr. Homer from Bethlehem Steel?

Mr. BATCHELLER. I did.

Senator MYERS. And you heard him say that most of the users of semifinished steel were making so much money that they could absorb the increased price to them. I know from looking at your statement, Mr. Batcheller, that your statement is a very fair statement, but do you agree with Mr. Homer that his customers should absorb that increased cost of semifinished steel?

Mr. BATCHELLER. I do not know who his customers are, and therefore, I have no opinion as to their ability to absorb it. In our case we cannot do so safely and maintain the continuity of the operations of our corporation.

Senator MYERS. Well, just forgetting your company for the moment, if you can, do you think it is possible for Bethlehem or any of these other producers of semifinished steel to increase the price, and that the industry generally can absorb that increased price—that is, other customers can absorb that price?

Mr. BATCHELLER. It could be, Senator. It would depend on the individual case. I do not think that it would be possible for any other corporation which has refrained to the extent that we have from increasing the prices. Not since the spring of 1946, following the wage increase as a result of the steel strike, have we made any increase in stainless steels, which constitute about 50 percent of our total sales; and for 2 years we have continued to carry and absorb this constantly mounting burden.

Senator MYERS. Your statement is a very fine presentation.

Mr. BATCHELLER. A little more specifically, I can give you some more figures on that.

Senator MYERS. You see the dilemma which confronts the committee. The producer increases his price and says that his customers should absorb it, and the only customer that we have before us, of semifinished steel, is yourself. And you prove to us that you cannot absorb it, and I surmise that that is generally true and that few if any of the customers of those steel companies will absorb the increased cost to them.

Mr. BATCHELLER. I doubt if they will.

At the same time, Senator, I might point out that the impact or the moral effect of this could not be worse, in my personal opinion. The practical impact of this on our economy is insignificant. I have made a few calculations which will supplement those made by Mr. Homer. I did not know that he was making them. But taking a 3-kilovolt-ampere rural electrification pole type transformer, which is a tonnage outlet for our electrical steels, the cost increase will raise the cost of that particular type of transformer 44 cents, and it sells for $63.96.

A power transformer, 333 kilovolt-ampere, industrial type, will be increased in cost $13.75 on $1,692. And other items are along the same line.

On this carbon steel, the effect on the wheel rims of one of the large automobile manufacturers will be 32 cents on a $1,500 car.

I cannot be too much concerned about the practical effect of this particular cost increase. But the moral effect is something entirely different, and I can only say, sir, that in our case we have resisted, and we will continue to resist so far as we can, any elements of cost increase which will make it necessary and essential for us to again increase our selling prices. And we will not increase those selling prices until it gets to such a point and such a degree that, having absorbed all that we can afford to absorb, we are jeopardizing the continuity of the operations of our corporation and the interest and investment of our 13,000 small stockholders, and that is where we are today.

Senator MYERS. It occurs to me that the psychological effect is very bad, and for the small amount which these increases might bring to the companies, the large companies, there is really no reason for it, basically no reason. And it does not get them out of the red, as they have testified, and it certainly may have a terrific impact on the whole inflationary problem.

The CHAIRMAN. Are there any other questions?

Representative WOLCOTT. Do we assume that you absorb these increases?

Mr. BATCHELLER. I beg your pardon.

Representative WOLCOTT. Did you absorb these last increases?

Mr. BATCHELLER. No; I just stated that we did not.

Representative WOLCOTT. I thought the indications of Senator Myers' question was that you had absorbed these last increases, which I did not get personally.

Mr. BATCHELLER. We felt that we could not absorb them.

Representative WOLCOTT. And you passed them on to your consumers?

Mr. BATCHELLER. My attention has been called to the fact that we absorbed some of it. We passed on $90,000 out of $150,000 cost increase per month.

Representative WOLCOTT. That would not have been necessary had the price of products which you buy from United States Steel not been increased?

Mr. BATCHELLER. I am sorry, I did not get the question.

Representative WOLCOTT. You buy your steel billets from United States Steel?

Mr. BATCHELLER. Yes.

Representative WOLCOTT. They have increased $7.30 a ton?

Mr. BATCHELLER. Yes.

Representative WOLCOTT. And you have passed on $90,000 of the total $150,000 increase?

Mr. BATCHELLER. We passed on $10 a ton, which represented the $7.30 direct increase in the cost of the semifinished steel purchased, plus the other cost increases affecting the product that we make out of those semifinished billets.

Representative WOLCOTT. Then if the United States Steel had not raised their price of steel billets to you by $7.30 a ton, there would have been no increase in the price of your finished product to your customers?

Mr. BATCHELLER. No, sir; there would not have been, at that time. The silicon steel, on the other hand, we would have raised. That had no connection with the carbon.

Representative WOLCOTT. You would have still raised that?

Mr. BATCHELLER. The increasing costs of silicon steel over a long period culminated at that particular moment entirely by coincidence, and it had no relation to the other.

Representative WOLCOTT. What were your net earnings in 1946?

Mr. BATCHELLER. $5,000,000, in round figures.

Representative WOLCOTT. And in 1947?

Mr. BATCHELLER. I beg your pardon, it was $6,600,000 in 1946, and $6,000,000 in round figures in 1947.

As I said, sir, that does not tell the story, because that rate of monthly earnings was steadily declining during the year. I might be a little more specific on that.

Representative WOLCOTT. I did not get the figures, but are these approximately correct: $6,600,000 in 1946, and $6,000,000 in 1947?

Mr. BATCHELLER. That is correct.

Representative WOLCOTT. All right.

Mr. BATCHELLER. As I say, that does not quite tell the whole story, because of the monthly decline during the year 1947; and to give you more specific figures on that, the monthly operating earnings of our company during the last quarter of 1946 were $1,200,000, and in December of 1947 it dropped to $700,000. Those were operating earnings before net, after everything except taxes, and that was due to the constantly increasing costs.

The CHAIRMAN. We thank you very much, Mr. Batcheller. We appreciate your coming down here and the information you have given us.

The meeting is adjourned.

(Whereupon, at 5:15 p. m., the hearing was concluded.)

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