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81st Congress, 2d Session — SENATE — Report No. 1373

DECEMBER 1949 STEEL PRICE INCREASES

REPORT

OF THE

JOINT COMMITTEE ON THE ECONOMIC REPORT

TOGETHER WITH

MINORITY AND INDIVIDUAL VIEWS AND COMMENTS OF CERTAIN MEMBERS

(Created pursuant to Sec. 5 (a) of Public Law 304, 79th Congress)

MARCH 27 (legislative day, MARCH 8), 1950.—Ordered to be printed with an illustration

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JOINT COMMITTEE ON THE ECONOMIC REPORT

(Created pursuant to sec. 5 (a) of Public Law 304, 79th Cong.)

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DECEMBER 1949 STEEL PRICE INCREASES

March 27 (legislative day, March 8), 1950.—Ordered to be printed with an illustration

Mr. O'Mahoney, from the Joint Committee on the Economic Report, submitted the following

REPORT

[Pursuant to Public Law 304, 79th Cong.]

The steel industry is the largest manufacturing industry in the Nation. It dominates our entire industrial output. Because of its military, strategic, and economic importance, total employment and business activity are peculiarly and inescapably involved. The decisions made by its executives with respect to production, expansion of facilities, wages, and prices have a spiralling effect on the entire national economy. The announcement on December 16, 1949, by the United States Steel Corp. of an impending increase in steel prices profoundly influenced the outlook and sentiment of businessmen throughout the country.

This is the third time that the Joint Committee on the Economic Report has examined the series of price increases in steel which have occurred since the end of the war. On March 2, 1948, under the chairmanship of Senator Taft, a hearing on the increases in steel prices of February 1948 was held. The Subcommittee on Profits, of which Senator Flanders was chairman, examined prices and profits of the steel industry in December 1948. Late in November of 1949 and again in December, price increases were initiated by some of the smaller steel companies. These were commented on by industry leaders and by trade journals to the effect that a more general steel-price increase was imminent.

Consequently, the committee staff, at the direction of the chairman, began a study of the current steel-price situation. On the very day that the United States Steel Corp. announced its price increase, the chairman issued an invitation to Mr. Benjamin Fairless, president of the United States Steel Corp., to lay bare publicly the facts on which such action was based. Not only Mr. Fairless, but several other steel executives expressed their desire to be heard. Accordingly, invitations were issued to them and to labor representatives, steel consumers, and other interested groups. Four-day hearings were held January 25–28. Nine steel companies, two labor-organization spokesmen, the president of a large steel-using corporation, and one Federal Reserve bank official presented testimony.

For the convenience of those who testified and for use by the committee, background information gathered from authoritative sources by the impartial Legislative Reference Service of the Library of Congress was released prior to the hearings in a committee document entitled "Basic Data Relating to Steel Prices."

This report of the Joint Committee on the Economic Report following its hearings on steel price increases which were made effective in December 1949, is written in full harmony with the declaration of policy set forth in the first section of the Employment Act of 1946 by which this committee was created. One of the purposes set forth in that declaration of policy is "to foster and promote free, competitive enterprise."

The hearings were conducted with the objective of developing facts with respect to the impact of price increases in the steel industry on free, competitive enterprise as well as on the whole economy. The analysis of the evidence here presented and the recommendations, likewise, are directed to the same end.

Following the termination of the public hearings, the transcripts of testimony were prepared for printing for the use of the committee members and a report was prepared, copies of which were submitted to the members of the committee prior to an executive session on February 25, 1950, when it was first discussed. The committee next met to consider the report on March 7. Thereafter, on March 20, the minority views were submitted for inclusion in this document. They appear at the conclusion of the majority report, together with brief comments by the chairman.

I. TESTIMONY HIGH LIGHTS

1. On December 16, 1949, the United States Steel Corp. increased its prices on domestic steel and lowered them on shipments abroad. Steel prices had practically reached 1926 levels before World War II, were 63.9 percent above that level in October and November 1949, and are 71.1 percent higher in January of 1950, as compared with 51.6 percent for wholesale prices in general. (See chart, p. 28.)

2. The profits of the largest steel companies in 1949 were at record levels. In the first 9 months of 1949, the period prior to the strike, the net income of the United States Steel Corp. per ton of steel shipped increased from $6.28 per ton in 1948 to $8.57 per ton, while profits after taxes increased by 51.3 percent over the comparable period in 1948; those of Bethlehem Steel Corp. were 55.9 percent higher.

Relative to such profits, Mr. Benjamin F. Fairless, president of the United States Steel Corp. made the comment:

> In my opinion, United States Steel has not made a fair return either on its sales or its investment at any time during the last 20 years. (Hearings, p. 7.)*

3. The total amount of the increase in steel prices was stated by Mr. Fairless at "approximately $3.82 a ton, or about 4 percent." Mr. Alva W. Phelps, president of the Oliver Corp., estimated the

*December 1949 Steel Price Increases, hearings before the Joint Committee on the Economic Report, January 24, 25, 26, and 27, 1950. Hereafter referred to as hearings.

price increase on the steel consumed in manufacturing farm machinery to be 7.8 percent.

The January 30, 1950, issue of Time, page 77, stated:

> In Chicago the Purchasing Agents Association polled 200 of its members, reported an average increase of $7.25 a ton during December. Some members complained that they were being nicked as high as $30 a ton more for special steels.

4. The amount of actual increase in raw material and freight costs was estimated by Mr. Enders Voorhees, chairman of the finance committee of the United States Steel Corp., at only 29 cents a ton. The Bethlehem Steel Corp. stated:

> . . . some of our costs, such as that of purchased scrap and fuel oil, have gone down. These reductions have, however, been offset by freight-rate increases, substantial increases in the cost of producing and purchasing coal, iron ore, coke, furnace brick, limestone, manganese ore, and many other materials and supplies. (Hearings, p. 471.)

So far as increases in labor costs are concerned, computations based on figures published by the United States Steel Corp. indicate that, despite the strike, pay rolls per ton of shipments amounted to $51.05 in 1949 as opposed to $50.14 in 1948. During the first 9 months of 1949 such pay-roll costs averaged $49.16 per ton.

5. The steel companies sought to justify the price increase on the ground of probable increased outlays necessary to finance the pension agreements negotiated in settlement of the steel strike. No actual outlays under the pension agreement are to be made until March 1, 1950, and insurance benefits did not become effective until February 1, 1950. Estimates varied widely with type of plan under consideration. Operative experience is necessary to determine what the increases in cost may actually prove to be.

In no case did industry estimates of pension costs allow for the decrease in tax liability (38 percent at current rates of corporate income tax) which will result from the fact that present Federal tax statutes permit funds set aside under pension plans approved by the Bureau of Internal Revenue to be fully deducted as current expenditures from current gross income.

6. Steel executives expect consumers currently to pay out in prices, not only enough to defray actual capital consumption, but to meet expansion costs and to provide reserves through accelerated depreciation sufficient to replace present capacity at present prices. During the period 1946 to September 1949, Mr. Enders Voorhees of United States Steel pointed out that total receipts of the United States Steel Corp. failed by only $112,700,000 to meet all disbursements (including interest and dividends) of United States Steel, despite $818,000,000 for plant replacement, expansion, and modernization. (Hearings, p. 63.)

Contrary to the general principle that it is ordinarily only the consumption of the plant and equipment used up that must be recovered from revenues as a depreciation expense, Mr. Homer, the president of Bethlehem Steel, testified that:

> If Bethlehem is merely to replace its existing facilities as they wear out or become progressively less efficient in relation to more modern equipment or are made obsolete for other reasons, Bethlehem should make provision out of its sales revenues to replace all of its existing production facilities within approximately 30 years, or at an average rate of about 3⅓ percent per year. This means that on the basis of current facility costs, Bethlehem, through its profits and depreciation and depletion reserves should in each year raise an average amount of 3⅓ percent

of $3,500,000,000 [the cost of all of Bethlehem's facilities at current prices], which is nearly $117,000,000 per year.

Mr. PATMAN. Mr. Homer, have you stated in here the actual costs to Bethlehem of these facilities? You state the replacement costs.

Mr. HOMER. That is right.

Mr. PATMAN. But what was the actual cost to Bethlehem? (Hearings, p. 474.)

* * * * * * *

Mr. HOMER. The original cost of all our properties, Congressman Patman, is $1,186,207,000. Our depreciation is figured on the basis of actual costs.

The CHAIRMAN. That is very different. If it is on actual costs, it is not on replacement.

Mr. HOMER. That is right. I thought I mentioned that our present depreciation is figured on actual costs, not on replacement costs.

The CHAIRMAN. Well, is that the depreciation for tax return and is it also the depreciation for your reports to stockholders?

Mr. HOMER. That is right.

Mr. PATMAN. But he is advocating, Mr. Chairman, that he have a 200-percent increase, a little bit more than that. . . . [He wants] prices fixed so that he can make up enough out of sales revenues, to quote the gentleman exactly, to have $117,000,000 a year depreciation.

Mr. HOMER. That is exactly what I am trying to point out. (Hearings, p. 480.)

* * * * * * *

Mr. PATMAN. In other words, you are asking the consumers of America to subsidize Bethlehem.

Mr. HOMER. Not at all.

Mr. PATMAN. By $2,400,000,000.

Mr. HOMER. Not at all. Somebody has to pay and you have to get it out of your prices.

The CHAIRMAN. It is perfectly clear from what you say . . . that you want $117,000,000 a year for replacement.

Mr. HOMER. That is right.

The CHAIRMAN. That the cost value of your facilities at this moment is $1,186,207,000.

Mr. HOMER. Yes, Mr. Chairman.

The CHAIRMAN. Now $117,000,000 would amount to $1,170,000,000 in 10 years. So you are asking for an average depreciation of all your facilities in 10 years.

* * * * * * *

Mr. HOMER. I do not agree with your point.

The CHAIRMAN. . . . [But] at the rate of $117,000,000 a year you would in 10 years set aside approximately the entire cost of your present plant.

Mr. HOMER. The original costs, Senator, not the replacement costs. (Hearings, p. 481.)

7. The course of prices in the steel industry is largely determined by the judgment of executives of the United States Steel Corp. Other corporations, instead of raising or lowering their own prices independently, display a marked disinclination to compete price-wise. The small companies live dangerously in the hands of Big Steel.

The matter is neatly put by Mr. Hazlett, vice president in charge of sales of Jones & Laughlin:

> . . . we did not raise the prices more than we did because of the competitive condition. If we had had a free choice, we would have raised prices more than United States Steel did. (Hearings, p. 196.)

To this, Admiral Moreell, chairman and president of Jones & Laughlin, added:

> . . . our prices were already too low and we were chafing at the bit to raise them. We were afraid to raise them because we were afraid that our competitors would not raise theirs, and we would then lose our customers. . . . We raised prices at that time because we could. . . . If we could, Jones & Laughlin would raise prices even more. (Hearings, pp. 196, 198.)

8. The small steel companies did not fare profit-wise as well in 1949 as did the two largest.

In the issue of February 6, 1950, the trade journal Steel (p. 57) states:

> The Nation's two largest steel producers ran counter to the downtrend in steel company earnings in 1949 and made substantial gains over 1948. Their combined gains were so great that they distort totals of earnings in the industry.
>
> While six of the eight producers with fiscal years ending December 31 . . . experienced declines in net earnings United States Steel Corp. and Bethlehem Steel Corp. each showed gains sufficient to make the total net earnings for the eight companies $398,362,895 in 1949, compared with $390,601,091 in 1948.

9. Computed in terms of levels in 1926, steel prices were relatively lower in 1946 and 1947 than the prices of manufactured goods. There ensued the greatest plant and equipment investment boom in American economic history. By December of 1948 the price of metals and metal products had risen to a level 10.3 percent higher than that of manufactured goods and in January 1950 it has risen to a point 13.6 percent higher. That is similarly the period during which business investment in plant and equipment has been declining.

10. The plight of independent fabricators and consumers in New England and elsewhere was described by Dr. Alfred Neal, vice president of the Federal Reserve Bank of Boston, testifying in behalf of the New England Council Steel Committee:

> It would be interesting and convincing to have these businessmen who are squeezed by high steel costs to tell their story to your committee. They will not do that, nor will most of them openly support the movement to obtain a New England mill because, as one told us recently, "We live by the grace of God and the Grace of Bethlehem Steel." (Hearings, p. 413.)
>
> * * * * * * *
>
> If consumers, through circumstances not of their own making and in fact through circumstances largely beyond the control of all of us are, in effect, financing a very large part of the steel industry's modernization and expansion program, should not the consumers of steel have a considerable voice in where the money for that modernization and expansion program is spent? (Hearings, p. 433.)

Despite a stable, vigorous market for over a million tons, despite a freight advantage of $10.20 to $15.60 a ton over steel coming in from outside New England, despite proximity to the new, rich Labrador iron ore deposits, despite the cheapness and abundance of other raw materials and labor needed for steel manufacture, New England businessmen, New England bankers, steel fabricators, consumers, and political leaders have found themselves unable even by united efforts to set up, or induce others to establish, a new integrated steel mill in the New England area. All the existing steel companies turned a deaf ear to New England pleas for an integrated subsidiary. Thus centralized management controls regional and local development.

Instead, United States Steel has purchased a large site well up the Delaware River in Pennsylvania and presented dramatic testimony concerning the discovery of a mountain of fabulously rich and pure iron ore called Cerro Bolivar, in Venezuela. An indication of the manner in which this iron ore supply will be used, together with its implications for Labrador or other iron ore coming to New England, is shown in an article written by the manager of publications for the American Institute of Mining and Metallurgical Engineers who frankly states:

> It is probable that the rich Venezuelan ore discovered by the United States Steel Corp. will be available in almost any producing center at a better competitive price than units of iron from any other source. This great lode of ore which can practically be pushed onto railroad cars will be available to all who wish to buy.

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Further, this one body alone could supply the entire American steel industry all through the lifetime of children now being born. However, for reasons already mentioned—military, competitive, etc.—development of Cerro Bolivar will likely never rise beyond 15,000,000 tons annually, although its price laid down in American steel centers will be a *yardstick exerting great influence on iron from other sources.*[1]

Thus the American steel industry is becoming more and more a center of international economic management and control. Its decisions determine the growth and development of unique and precious resources in both hemispheres.

11. The impact of steel price increases at this particular juncture of world events and economic history was commented on by the New York Times in an editorial of December 17:

Certainly, Big Steel's action is unfortunate in its timing. For several months now the forces of deflation and inflation have been delicately balanced, with the latter if anything seeming to be at the moment in the ascendant. This situation is not of the Steel Corp.'s making. . . . Nevertheless, Steel has, in effect, given our precarious national stability a further jolt which many persons are bound to feel was, if not unjustified, at least premature.

Fifty years ago price actions in the steel industry did not so intimately affect the entire economic and industrial structure of the country. In 1898, for example, steel capacity amounted to only 432 pounds per person. In 1908 just before the House committee under Representative Stanley made its famous investigation of the United States Steel Corp., total steel capacity had increased to 862 pounds per person. At the time of the famous 1920 antitrust decision it amounted to 1,170 pounds per person. In the fabulous twenties it hardly increased at all, being only 1,186 pounds per person in 1930. By 1940 it had grown slightly to 1,237 pounds per person and today it amounts to 1,316 pounds per person. Such intensive growth has multiplied the economic repercussions of the decisions of business executives in the steel industry.

Thus by extensive and intensive growth, both horizontally and vertically, the economic management of steel has pervasive and determining effects upon international and domestic welfare, upon programs for investment abroad and regional development at home, upon economic improvement in standards of living in underdeveloped areas and upon the success of the free competitive enterprise system throughout the world.

12. On the same day the same American producers who had increased prices for domestic consumers in the United States decreased the prices for steel exports. Yet on the date of this simultaneous price change, December 16, 1949, the probable increases in costs due to pensions were neither known nor had they yet been figured.

The decrease in export prices was explained on the ground that competitive conditions were developing as a result of devaluation of currencies in the sterling area and rehabilitation of the European steel industry. Export prices are, however, still above domestic prices.

Moreover, increased prices for steel on both the "extra" and base lists were declared at a time when industrial prices generally were falling. Thus, against the trend, a price movement was initiated which raised steel prices to the highest level relative to all other prices reached at any time since 1941.

[1] T. W. Lippert, "Cerro Bolivar, Saga of an Iron Ore Crisis Averted," in Journal of Metals and Mining Engineering, February 1950, p. 5. [Italics have been added.]

The conclusion is clear: Increased steel prices for United States consumption were possible only because competitive conditions in the steel industry were lacking.

II. THE BASIC PROBLEM

The fundamental question was simple: With earnings and profits at an all-time high, why should the big steel companies raise prices? A portion of the interchange between Mr. Homer, president of Bethlehem Steel, and the chairman puts the matter in a nutshell:

The Chairman. Now, was it to meet competition that you followed United States Steel [prices] up this year?

Mr. HOMER. This whole statement that I have just read today supports what my position is . . . If your profits are not sufficient, and there is an opportunity of being able to maintain your business and still keep at the market level on your prices, you certainly would meet that particular market level, would you not, when your earnings are not sufficient to do what you want to do?

The CHAIRMAN. Now, on that point that you have just made, Mr. Homer, I want to read from the Journal of Commerce (New York), of Friday, January 27, 1950. Here is the heading:

"BETHLEHEM NET IN 1949 AT PEAK DESPITE THE STRIKE—EARNS $9.68 A SHARE—BUT STEEL TIE-UP PARED FALL PROFITS SHARPLY

"Record earnings of $99,283,539 were reported for 1949 yesterday by Bethlehem Steel Corp. despite strike losses, which Chairman E. G. Grace estimated at $12,000,000. The new peak in net income was attained despite a falling off in total business. Grace attributed this to greater efficiency in production resulting from the spending of some $318,000,000 on plant improvement in the past 4 years. He announced further expansions and betterment of facilities were planned including a $30,000,000 expansion of Bethlehem's huge Sparrows Point, Md., facility."

Now, I ask you on the basis of that report . . . in the face of these record earnings made during 1949 how does it come about that you want the committee to believe that Bethlehem Steel was in such a desperate plight that when United States Steel raised its prices, you could not afford to do anything but follow meekly in their steps? Why couldn't you in the light of the report which your chairman has just announced, have maintained a competitive price below United States Steel in the hope that with these expanding facilities, the $318,000,000 worth of extra facilities reported by him . . . [you would] get some of United States Steel's business? (Hearings, pp. 513–514.)

* * * * * * *

. . . you told us of the tremendous competition that domestic steel is now getting at the hands of foreign producers. . . . You say "I might tell you that the foreign mills have invaded our domestic markets quoting prices considerably below our own. Structural shapes manufactured in Luxemburg have been offered in Boston at from $23 to $30 per ton below our delivered price and nails at from $13 to $34 under ours; in Philadelphia structural shapes have recently been quoted at from $2 to $14 below the price of our shapes produced in nearby Bethlehem. A sales pamphlet circulated in New York City by representatives for a Belgian steel mill declared, 'You can save 30 percent to 40 percent below American mill prices.' " Now, if foreign steel is in fact coming into the United States at prices so far below yours, how did you dare to increase your own domestic prices?

Mr. HOMER. Well, we may have to bring it down, Senator, when it gets to a volume which forces us to do so. . . . (Hearings, p. 514.)

III. SUMMARY OF THE EVIDENCE

1. Steel prices were relatively high before World War II, had regained that position in 1949, and were pushed higher by recent increases.

For reasons that remain obscure (unless one assumes effective limitation on free enterprise and competition), steel prices did not go down as much as other prices in the 1930's, and have continued to go up during 1949, despite a decrease in wholesale prices in general.

In 1940 the average level of the wholesale prices of all commodities was still 21.4 percent below their general level in 1926 as computed in the authoritative index of the Bureau of Labor Statistics. Steel prices were only one-half of 1 percent lower. In fact, only one group was higher than steel, the index of the prices of hides and leather being eight-tenths of 1 percent above the base year, 1926. Farm products, on the other hand, were still 32.3 percent below 1926 levels and foods 28.7 percent. See table I for details.

Before the recent increase steel prices were already 8 percent above those of commodities in general. Now they are not only about 13 percent above the general level of wholesale prices, but they are almost an equal amount higher than farm prices. Steel executives have been more efficient in boosting and maintaining steel prices than farmers and the Government have been in supporting farm prices. In fact, were it not for the high prices of livestock and meat not under supports (their weekly indexes hover around 200 and 210), the indexes of farm prices and of food prices would be appreciably lower than the average of prices in general. Lowest of all are the prices of textiles, fuels, lighting materials, and chemicals.

TABLE I.—*Wholesale price index, 1940, October 1949 and January 1950*

[1926=100]

	January 1950		October 1949		The year 1940	
	Index	Rank	Index	Rank	Index	Rank
Building materials [1]	191.7	1	189.2	1	94.8	5
Hides and leather	179.3	2	181.3	2	100.8	1
Steel mill products [2]	171.1	3	163.9	4	99.5	2
Metals and metal products	168.4	4	167.3	3	95.8	3
Iron and steel	167.3	5	163.3	5	95.1	4
Farm products	155.3	6	159.6	6	67.7	12
Foods	154.7	7	159.6	7	71.3	11
All commodities	151.6	8	152.2	8	78.6	7
House furnishings	144.8	9	143.0	9	88.5	6
Textiles	138.5	10	138.0	10	73.8	9
Fuel and lighting materials	131.3	11	130.5	11	71.7	10
Chemicals and allied products	115.7	12	116.0	12	77.0	8

[1] Structural steel with an index of 191.6 in January 1950 is second only to lumber, at 287.5, within the building-materials group.

[2] Special compilation made for the Joint Committee on the Economic Report by the Bureau of Labor Statistics. (See Appendix A.) The published indexes for the subgroup iron and steel include, but are not representative of, the products shipped. Thus the rise in the iron and steel subgroup of the Bureau of Labor Statistics index is minimized by the inclusion of many items other than steel-mill products—such as iron ore, steel scrap, agricultural and mechanics hand tools, soil pipe, tin cans, pig iron, and gray-iron castings. The relative importance of items other than steel-mill products included in the Bureau of Labor Statistics index is approximately 50 percent of the subgroup total. Between December 1949 and January 1950 price changes were recorded on only 3 of the items other than steel-mill products while 42 items in the iron and steel subgroup showed no price change.

Moreover, the Bureau of Labor Statistics uses prices of extras on only 11 of the 30 regular steel-mill products included in the index and these are only the most common extras. Base prices alone are used to reflect the trend of prices on the other 19 steel-mill products. A survey made by the Bureau of Labor Statistics in 1943 disclosed that extras represented more than 14 percent of the net delivered cost of important steel-mill products to consumers at the time.

Concerning steel composite price figures, such as those used in the trade journals Iron Age and Steel, the U. S. Bureau of Labor Statistics noted that they include only changes in base prices, and went on to say: "* * * base prices alone are neither good measures of the level of prices of steel nor adequate indicators of the comparative prices of different steel products. * * * Today, when extras are an important part of the price of steel, sometimes more important than the base price itself, base prices have lost much of their sensitivity as measures of steel prices. * * * Contrary to popular belief, the base price does not always represent a popular size or specification of a given product. * * * As extras became a more important part of the delivered prices and the stability of base prices grew, base prices lost much of their reliability as barometers of steel prices" (Consumers' Prices of Steel Products, Bureau of Labor Statistics, Mar. 31, 1943, p. 15).

Many computations have recently appeared in the trade press and some were presented in the hearings to imply that steel prices are low. These invariably employ the dubious technique of manipulating the authoritative (1926=100) figures of the Bureau of Labor Statistics, by converting them to a 1939 or 1940 base. But steel prices were then already high, although the prices of farm products and foods were still at distress levels. Merely to catch up with the prices of iron and steel, farm products in 1940 required an increase in price of over 40 percent.

2. Profits of the two largest steel companies in 1949 were at an all-time high. Those reported by the United States Steel Corp. for the first 9 months of 1949 had increased 51.3 percent over the record level of the first 9 months of 1948 and those of the Bethlehem Steel Corp. by 55.9 percent. While these two largest companies showed profit increases, almost all other steel companies had lower profits in 1949 than in 1948.

The figures for the first 9 months of 1949 represented the only actual facts available to this committee in December when the hearing was scheduled. Moreover, the first 9 months of 1949 represented operations undisturbed by strikes and were roughly comparable to similar relatively full-volume operations in 1948.

The data prepared by the Federal Trade Commission and published in the committee document called Basic Data Relating to Steel Prices showed that except for 1929, and the unregulated war-profits years of 1917 and 1918, the net rate of return after taxes on total investment in United States Steel, was higher in 1948 than in any other year in its history. When stated on a comparable basis according to universally and officially accepted standards of the accounting profession, the rate of return enjoyed by United States Steel on total investment, after taxes, was 9.7 percent in 1947, and 10.2 percent in 1948, as compared with 11.4 percent in 1929.

Moreover, on common stock that was printed in 1901 with little, if anything, in the nature of equity to back it, stockholders have received from 1902 through 1949 a total of $1,334,393,122 in cash dividends. In addition, undistributed earnings have been plowed back and accumulated in such sums that at the end of 1948 the book value of the common stock aggregated $870,325,200. Furthermore, as of December 31, 1948, the company had a profit and loss surplus amounting to $602,453,693.

Concerning the profits of the Bethlehem Steel Corp., its president, Mr. Homer, stated:

> In the face of substantial increases in our production costs, it should be evident why we were disposed to follow the new market level of prices. Only by doing so could we have a reasonable opportunity of realizing a profit rate in 1950 which will not be substantially below our profit rate in 1949. As announced yesterday at the regular quarterly meeting of our board of directors, our 1949 profit rate was 7.8 cents per dollar of sales. This is our net rate after taxes. It is not an unreasonable profit. (Hearings, p. 471.)

Yet in 1948 and 1949, the net rate of profit (after taxes) on stockholder investment (which Mr. Homer did not mention) was at an all-time high except for the unregulated war-profits year of 1917. Moreover, in 1949 total profit reached an all-time high, $99,300,000 after taxes, and this despite the strike and the fact that net billings of the company had decreased from $1,313,000,000 in 1948 to $1,267,000,000 in 1949.

The testimony of Admiral Moreell concerning the profits of the Jones & Laughlin Corp. followed a similar vein. He stated that:

> Jones & Laughlin profits never were, and are not now, high by any reasonable standard. . . . Steel prices, in general, are not so high as they should be. To me it appears that steel prices have so lagged behind other prices that at present the steel industry is wasting its assets. We are tossing them in for free with every ton of steel sold. The reason is this: We are not charging enough for our products to pay the huge costs of rehabilitating and improving steel plants to keep pace with America. (Hearings, p. 183.)

Again, the careful studies of the Federal Trade Commission, summarized and published in our committee document Basic Data Relating to Steel Prices, demonstrate that the net return, after taxes, on stockholders' investment in Jones & Laughlin Steel, amounted to 13.1 percent in 1948 as compared with 9.8 percent in 1941, and 10.9 percent in 1929. When asked by Congressman Buchanan what he would consider to be a fair return on investment (since he had suggested that Jones & Laughlin had never in its history had high profits by any reasonable standard), Admiral Ben Moreell stated that—

> . . . in order to have sufficient earnings under the present internal-revenue laws, to have sufficient payments to shareholders to attract venture capital to the business, we would have to have a return on the shareholders' investment of about 24 percent. . . .
>
> Mr. BUCHANAN. That is 24 percent before taxes?
>
> Mr. MOREELL. No sir; that is 24 percent after taxes. (Hearings, pp. 191–192.)

Information made available since the date of the hearings indicates that for 1949 as a whole as compared with 1948, both United States Steel and Bethlehem showed large increases, but that the rest of the industry and, in particular, small concerns such as Crucible Steel suffered drastic declines. The facts reported by eight firms with fiscal years ending on December 31, 1949, are shown in table II below.

TABLE II.—*Profits 1948 and 1949 of major steel companies (arranged in order of capacity in 1949)* [1]

Company	Year ended Dec. 31—		Percentage change
	1949	1948	
United States Steel Corp	$165,958,806	$129,627,845	28.0
Bethlehem Steel Corp	99,283,539	90,347,560	9.9
Republic Steel Corp	46,142,323	46,438,382	—.6
Jones & Laughlin Steel Corp	20,961,245	31,222,451	—32.9
Youngstown Sheet & Tube Co	31,777,010	35,711,732	—11.0
Inland Steel Co	25,013,707	38,606,899	—35.2
Wheeling Steel Corp	7,896,265	15,050,045	—47.5
Crucible Steel Co. of America	1,330,000	3,596,177	—63.8

[1] Source: Steel, Feb. 6, 1950, p. 57.

The contrasting experience of United States Steel Corp. is shown in table III below. Note that net income per ton of shipments went up from $6.28 a ton in 1948 to $9.09 per ton in 1949.

TABLE III.—*Selected data on United States Steel Corp.—1940 and 1945–49*

Year	Products and services sold	Net income (after taxes)	Total pay roll	Total shipments (net tons)	Pay roll per ton of shipments [1]	Net income per ton of shipments [1]
1949 entire year	$2,302,443,000	$165,959,000	$931,736,000	18,250	$51.05	$9.09
(First 9 months)	(1,916,777,000)	(133,223,000)	(764,339,000)	(15,549)	(49.16)	(8.57)
1948	2,481,509,000	129,628,000	1,035,714,000	20,655	50.14	6.28
1947	2,115,835,000	127,098,000	890,112,000	20,242	43.97	6.28
1946	1,496,064,000	88,622,000	694,258,000	15,182	45.73	5.84
1945	1,747,339,000	58,015,000	786,722,000	18,410	42.73	3.15
1940	1,076,471,000	102,211,000	438,621,000	15,014	29.21	6.81

[1] These data do not reflect actual pay-roll cost or profits per ton of steel produced, but do afford a comparison on relative trends of pay-roll costs and profits per ton of all steel products shipped by the company.

Source: Standard and Poor's Corporation Records, Moody's Industrials, and The Wall Street Journal, Feb. 1, 1950.

So far as productive capacity is concerned the three big companies, United States Steel, Bethlehem, and Republic, accounted for 58 percent of total capacity in 1938 and 56.3 percent in 1949. Of the total increase in steel capacity that took place between 1938 and 1949, the Big Three account for 46.6 percent, the 10 next largest for 29.8 percent.

Details are shown in table IV below.

TABLE IV.—*Steel ingot capacity of major steel companies, 1938 and 1949*

[In net tons]

Company	1949 capacity (Jan. 1)	1938 capacity (July 1)	1949 increase over 1938	Increase of companies as percent of total increase
All United States steel companies	96,120,930	81,813,640	14,307,290	
United States Steel	31,277,500	28,885,000	2,392,500	16.7
Bethlehem	14,200,000	11,247,000	2,953,000	20.6
Republic	8,600,000	7,280,000	1,320,000	9.2
Total Big Three	54,077,500	47,412,000	6,665,500	46.6
Jones & Laughlin	4,816,500	4,111,700	704,800	4.9
National Steel	4,200,000	3,808,000	392,000	2.7
Youngstown Sheet & Tube	4,082,000	3,494,000	588,000	4.1
Armco Steel	3,563,000	2,916,000	647,000	4.5
Inland Steel	3,400,000	3,091,000	309,000	2.2
Sharon Steel [1]	1,672,000	560,000	1,112,000	7.8
Wheeling Steel	1,536,000	1,960,000	−424,000	−3.0
Colorado Fuel & Iron	1,452,000	995,000	457,000	3.2
Crucible Steel	1,277,130	955,800	321,330	2.2
Pittsburgh Steel	1,072,000	907,200	164,800	1.2
Total capacity of 13 companies listed	81,148,130	70,210,700	10,937,430	
Total capacity of 13 companies as percent of all steel companies	84.4	85.8		76.4
Big Three as percent of all steel companies	56.3	58.0		46.6

[1] At the end of 1945 the United States Steel Corp. sold Sharon the Farrell plant with an estimated ingot capacity of 900,000 tons. It also contracted to supply the iron-ore requirements of the Farrell plant for 10 years. The percentage of total national capacity controlled by United States Steel went down from 35.3 to 32.5 percent.

Source: American Iron and Steel Institute.

3. Estimates varied widely concerning the actual amount of the increase announced on the average in steel prices.

Neither the United States Steel Corp. nor the others who asked to be heard supplied at any time the information requested[2] on base prices and extras before and after December 16 for each major steel product, nor did they indicate by what formulæ, weighting, or computation they developed the figure they gave out, namely: $2 per ton increase in base prices and $2 per ton in extras or 4 percent on the average.

At the beginning of his testimony Mr. Benjamin Fairless stated that the price increases of United States Steel "were modest in character, amounting on the average to approximately $3.82 a ton or about 4 percent." Almost all other witnesses who gave any statement of the price increase presented about the same figure. Republic Steel estimated an increase of $3.60 per ton on all its steel shipments or a price increase averaging about 3.5 percent. National Steel Co. estimated its net increases at about $3.50 per ton. Inland Steel estimated that the net effect of the revised prices might average from $4 to $4.50 a ton. Both Jones & Laughlin and Bethlehem Steel Corp. estimated their increase at about $4 a ton.

None of the corporations, however, gave any indication of the methods used to arrive at their figures. They did not indicate what weighting was made or on what period their estimates were based, whether or not they included intracorporate sales or what other adjustments they made.[3]

Considerable evidence was presented that the price increase was substantially greater than the $4 figure commonly used by the steel companies. The steel committee of the National Association of Purchasing Agents in its report released December 28, 1949, stated that—

> . . . substantially higher material costs face fabricators and consumers of steel as a result of the price increases announced December 16 by United States Steel Corp. subsidiaries and followed by other steel producers last week. First announcements of increases averaging $4 per ton were accepted as the inevitable result of higher freight and labor costs and of very strong demand for most steel-mill products. Most manufacturers using steel to make standard products and whose selling prices are established by competitive forces were prepared for moderately higher steel prices and were reconciled to the necessity of absorbing them. But they were not prepared for the cumulative increases in extras received several days after the effective date.

The January 18 issue of the bulletin of the association made the following commentary on the above report:

> The Steel Market Report, which was published 2 weeks ago, may be disappointing to some because it does not openly criticize the things of which we as buyers have every right to be critical. On the other hand, *I don't believe any of us can afford to criticize our sources of supply in public.* Doing so would most certainly kill our chances of getting any particular help from them either on deliveries in times of tight supply or on pricing when conditions are more competitive.[4]

Alva W. Phelps, president of the Oliver Corp., a major farm-machinery manufacturer, testified that the price increase it experi-

[2] For a list of the information requested of United States Steel, for example, see appendix B.

[3] Even the statements promised and submitted since the close of the hearings are substantially impenetrable to analysis. Thus for example, Ben Moreell, president and chairman of Jones & Laughlin, writes as follows: "We [Jones & Laughlin] arrived at this figure [the average increase per ton of steel] by applying the actual increases—for both base price and extras—to the actual tonnages of our sales pattern which our order book reflected for the first quarter of 1950, and arrived at an average increase in the price per ton. This indicates as accurately as is possible the expected increase in revenue to this corporation resulting from the price increase." However, without the actual tonnage and other figures, no statistical check of the results indicated can be made.

[4] Bulletin of the National Association of Purchasing Agents, January 18, 1950, p. 1. [Italics added.]

enced approximated 7.8 percent, with a range for principal items from 2.9 to 15.7 percent. Iron Age itself stated, in its December 23 issue, that the December 16 price change by United States Steel was drastic. "Sheet prices have been revised to the extent that buyers must completely change their thinking as to what types and sizes of steel are most economical to use." Increases in the cost of manufacturing automobiles are estimated at from $50 to $75. (Steel, December 26, 1949, p. 19.) Users of sheet steel and of wires and rods needed for the production of bolts, nuts, screws, etc. appear to be particularly hard hit.

The composite price index for finished steel, issued by Iron Age, which excludes the extras in which at least half of the increase occurred, shows an advance from 3.705 to 3.837 cents a pound, or 3.6 percent. This compares with the 2-percent increase in base price referred to by most steel producers.

The analysis prepared by Otis Brubaker, research director for the United Steel Workers of America, showed that—

> . . . Of the major tonnage items not one showed a decrease and not one showed an increase as small as 4 percent—and only one showed an increase as small as $4 . . . An analysis of all 1948 tonnage shows that 65.7 percent showed total increases above 4 percent. The percentage increase was not available on another 10 percent. The increase on 8.8 percent of the tonnage was below a 4-percent increase. On only 7.3 percent were there decreases and on only 8.2 percent were there no increases. (Hearings, p. 300.)

4. The evidence submitted on actual increases in costs likewise varied considerably.

No data of any kind were submitted to substantiate what had happened to labor costs per ton of steel.[5] Such meager data as are available (and company data only for United States Steel have broad enough coverage to risk a tentative inference) seem to indicate that in actual fact during the first 9 months of 1949, when operating at a rate almost identical with that for the year 1948, total pay rolls per ton of United States Steel products shipped probably declined by nearly a dollar a ton. The strike during the fourth quarter of 1949 altered the figure for the full year to about a dollar a ton higher.

An indication of what may have happened to nonlabor costs is provided by the fact that net income per ton of shipments increased nearly 50 percent, i. e., from $6.28 a ton in 1948 to $9.09 in 1949. This occurred despite a small decline in total sales revenue, and a reduction in physical volume of shipments of nearly 12 percent. (See table III for complete detail and comparisons with war and prewar years.)

So far as actual increases are concerned in the costs of materials purchased, Mr. Enders Voorhees, chairman of the finance committee of United States Steel, after listing total estimated increases in coal costs of $19,900,000 and in freight costs of $17,300,000, found that offsetting decreases in the costs of scrap tin, fuel oil, and other purchased materials amounting to $31,900,000 left a net increase of $5,300,000, or 29 cents a ton, an amount somewhat small to warrant a major price boost. He assumed, furthermore, that the coal industry would continue operating on a 3-day week basis (it operated thus only during a portion of 1949), and made no allowance for the fact that United States Steel mined most of its own coal and transported a

[5] Mr. Enders Voorhees showed employment costs as a fraction of the sales dollar. In 1949 it was 39.9 percent, a figure lower than any during the last 30 years excepting 1929 and 1941. (Hearings, p. 76.)

substantial fraction of its own materials. Actual costs may or may not have risen as much as market prices and official rates.

Moreover, the 29-cent-a-ton figure and all the other per-ton computations presented in Mr. Voorhees' statement are based on annual shipments of 18,250,000 net tons of steel, a figure roughly 10 percent under the shipments of 1948 and 1947, and under every other year since 1941 with the exception of 1946 and 1949, in both of which major steel strikes cut production sharply. By applying this rate of operations to 1948 and 1949, Mr. Voorhees tended to underestimate the revenue increase accruing from the price rise, while maximizing the per-ton cost increase arising from increased materials and pension costs.

In order to make an accurate appraisal of the effect of cost changes of raw materials, it would be necessary to know the purchases and amounts used of the major raw materials, the freight bills of the company, and the production cost data for those materials which are not purchased. The cost structure would differ substantialy between those companies owning their own sources of raw materials (and selling them to others at higher prices and increased profits), and operating their own transportation lines, and the small nonintegrated companies which are dependent upon others for their raw materials and transportation.

Nevertheless, the information as presented by United States Steel and Bethlehem indicates that the actual total of material and freight costs on net balance may have been lower in 1949 than in 1948. It is interesting to note that Republic Steel Corp. reported a $3.65 per ton material and freight cost increase. The only possible explanation, in the absence of supporting detail, is that Republic computed only increases, neglecting to offset them by decreases in material cost of scrap and fuel oil.

5. *Estimates presented of probable or future increases in costs due to pension and insurance programs had in no instance been definitely determined by actuaries and varied widely depending on permutations and combinations of more than a dozen actuarial assumptions. Only experience can establish what such increases may prove to be.*

An outstanding private consultant currently being employed by many of the major steel companies, Mr. George Buck, testified concerning the multiplicity of the pension plans and the diversity of methods of financing them which are eligible to be used according to the terms of the collective bargaining settlement negotiated in the steel industry. He estimated that the additional annual pension cost to the United States Steel Corp. would be about $54,500,000, but did not indicate in full either the nature of the computations or the assumptions by which his staff arrived at this result.

The Bethlehem Steel Corp., on the other hand, in its proxy statement to stockholders, estimated the annual increase in its pension costs at only 2 or 2½ million dollars. This amounted to only about 25 cents a ton, based on 1948 tonnage in contrast to the $4 a ton stated steel price increase. (For 1950 it estimates the possible need of a nonrecurring $10,000,000 fund to take care of past service liabilities.) The variance here is so substantial that it is difficult to understand how they could be in any way related to the identical price increase which both companies instituted within a week of each other. Most other companies have as yet barely started computing reliable estimates of what their pension costs are likely to be.

The major factors which appeared from the testimony to bring about variations in estimates of costs of a given pension plan include:

(*a*) Eligibility requirements in terms of age and length of service.
(*b*) Extent of benefits to employees.
(*c*) Mortality rate assumed among employees covered under the plan, both before and after retirement.
(*d*) Ages and rates at which retirements actually take place.
(*e*) Incidence of permanent and total disability.
(*f*) Rate of withdrawal of employees from the company and from the plan.
(*g*) Probable salary or wage scale of employees during the period of employment.
(*h*) Ages and rates at which new employees enter employment.
(*i*) Sex of employees and pensioners.
(*j*) Average rate of interest which will be earned on pension funds.
(*k*) Extent to which employees have a claim on funds which the company sets aside for pension payments.
(*l*) Methods of funding used to accumulate the pension funds.
(*m*) Reserves required under the adopted plan.
(*n*) Expenses of administering the pension plan.
(*o*) Changes in Federal social-security benefits and taxes.

All witnesses agreed that present estimates of increased costs due to pensions were based on the assumption that Federal social-security benefits would not be increased beyond those now existing. The enactment of the bill now pending, for example, would substantially reduce pension costs to the steel industry.

Similarly no allowance was made for the fact that the cost of pension plans approved by the Treasury Department can be treated as deductible so that 38 percent (at current rates of corporate income taxation) of the cost comes out of the United States Government.

Furthermore, none of the industry witnesses took cognizance of the major argument which in the widespread inauguration of liberal pension plans for high-paid steel executives has always been presented to stockholders as primary justification. Private pension plans are usually advocated as "good business" in that they tend to increase executive productivity. In fact, the resulting improved alertness, loyalty, and efficiency are prominently argued in proxy statements to reduce the ultimate cost of the pension plan to less than zero. Outlays for pensions are considered profitable.

This argument was given due consideration by the President's fact-finding board for the steel industry. After weeks of hearings and a most careful study of wages, pensions, profits, and prices in the steel industry, these objective and disinterested experts came to the unanimous conclusion, as stated in their report to the President of the United States, that—

> The plant modernization and expansion program should result in efficiencies which, other things being equal, will better enable the companies to meet the cost of the insurance and pension plans recommended, and also to look toward a lower level of prices for their products. . . .
>
> With increased efficiency and lowered costs resulting from the plant-modernization program, and with no great decrease in the demand for steel, there should be continued and higher profits. If these profits do not result in benefit to the consumer in the form of lower prices, there would be justification for the union to review its demand for increase of wage rates in order better to participate in the industry's prosperity.

There is no question that the terms of fair settlement of the 1949 steel strike suggested by the board were entirely premised on their conviction that steel prices did not have to be raised and could in all probability be lowered. They estimated that the social insurance and pension programs recommended by them (which were substantially those finally agreed upon) would bring about an increase of only 2½ percent in total costs of operation, even should workers average 2,000 hours of employment per year. They made the further assumption that labor costs would average 50 percent of total production costs whereas Mr. Enders Voorhees of United States Steel presented evidence that the actual figure was slightly under 40 percent.

The failure of industry witnesses to allow for reductions in cost due to modernization of facilities is the more interesting inasmuch as there seem to be numerous indications that plant-improvement programs are beginning to have a favorable effect both on costs and on profits. As already noted, both United States Steel Corp. and Bethlehem Steel Corp. were able to increase their profit in 1949 over 1948 even though the net sales for these companies were lower in 1949 than they had been in the previous year. Lukens Steel Co. reported that it was able to pull down its break-even point from 70 to 75 percent of capacity to 50 to 55 percent of capacity within 2 years as a result of the modernization programs which it has put into effect.

The January 23, 1950, issue of Barron's in an article entitled "Steel Expansion Spurred by Need to Cut Cost" states:

> Nobody knows exactly how much of the $3,000,000,000 (the amount spent since 1940 by the steel companies for expansion facilities or modernization of facilities) went into new capacity, and how much went into modernization and improvement. Speaking of his own company, one official of United States Steel hazards a guess: One-third for a new plant, the rest for improving what was on hand. . . . Whatever the precise ratio, the steel companies clearly have built a lot of hidden productivity into their plant. They intend to build more. There is no other logical reason for their spending nearly half a billion dollars in 1950 when supply in 1949 finally outran the avid postwar demand.

Since the date on which these hearings were held the United States Steel Corp. has published its figures of sales and profits during the fourth quarter of 1949. It operated at 46.6 percent of capacity. Its sales fell from $605,000,000 in the third quarter to $386,000,000 in the fourth quarter. Yet despite the strike it reported profits of $32,735,000 which after its own accounting adjustments for depreciation, inventories, and reserves leaves a reported net profit of $6,700,000. The break-even point in United States Steel would seem to be below 45 percent of capacity. Clearly postwar wage rates and high raw-material prices have not put it on a high-cost plateau such that a decline in business activity will wreck earnings. United States Steel is well prepared for a depression.

But as Mr. J. A. Livingston states in his column on this topic in the Washington Post for February 4, 1950:

> If prices were high enough in the fourth quarter to take care of a 36-percent drop in sales, why did they have to go higher to take care of pensions? Indeed, United States Steel's boost in its dividend from 50 to 65 cents a common share would add force to that point of view.

6. Not only replacement of existing productive capacity but the expansion of the steel industry has been paid for out of the profits obtained through the prices paid by the steel consumers, including the Federal Government.

Mr. Enders Voorhees, of the United States Steel Corp., presented a highly interesting summary of cash receipts and cash disbursements by the United States Steel Corp. for the entire postwar period. Disbursements, he demonstrated, exceeded receipts from customers by $112,700,000. (Hearings, p. 63.)

Among such expenditures were included $818,000,000 for plant modernization, replacement, and expansion. Despite repeated questioning, he did not make the relative amounts for expansion as compared with modernization and replacement available.

But it is clear that except for $112,700,000, all of it was financed by consumers. In the active sellers' market that featured the postwar period, prices were bid up, total profits vastly exceeded all previous war- or boom-time levels, and undistributed earnings became several times as large as the highest previous figure in steel history. It is this costless capital collected from customers upon which "adequate returns" will be expected in the prices which customers will be charged from now on.

United States Steel obtained the $112,700,000 additional cash from the sale of war bonds which, of course, represented the liquid capital accumulated during the war precisely for the purpose of financing deferred modernization. The war earnings of steel then necessarily came from the profits on Government contracts. In addition, United States Steel was allowed to purchase Government-built plants that cost $345,400,000 (today's costs would be considerably higher) for only $120,100,000, or 34.8 percent on the dollar. Parenthetically, the fact should be added that one of these properties, that at Geneva, Utah, was a fully integrated plant with iron ore, limestone, blast furnaces, steel works, and rolling mills.

However, steel executives (like public utility executives, who argue in periods of low prices that original cost of plant plus additions and betterments minus depreciation should serve as rate base, and in periods of high prices argue for reproduction costs) not only assume that present levels of plant costs will continue for several years, but maintain that steel prices should be adequate to afford a return sufficient to attract venture capital after deduction of depreciation charges based on current levels of replacement costs.

Thus in 1948, three of the major steel companies—the United States Steel Corp., Republic Steel Corp., and National Steel Corp.—all of whom were represented at these hearings—adopted a policy retroactive to January 1, 1947, of computing depreciation on postwar facilities at an accelerated rate, an accounting device which, of course, greatly reduces the reported figures of net profits in recent years as compared with prior periods.

This accelerated depreciation is in addition to normal depreciation on all depreciable property and is not deductible for tax purposes. The amount charged to net income in 1948 for accelerated depreciation amounted to $55,335,444 for United States Steel Corp., $7,000,000 for Republic Steel Corp., and $10,500,000 for National Steel Corp. The amounts stated to be applicable to 1947 operations were $28,975,094 for United States Steel Corp., $4,000,000 for Republic Steel Corp., and $3,500,000 for National Steel Corp. . . .

* * * * * * *

The accounting profession, supported by the Securities and Exchange Commission, regards as unsound accounting the practice of including for depreciation amounts based on estimates of present or future replacement costs instead of original costs.

In its Accounting Research Bulletin No. 33, issued by its committee on accounting procedures in December 1947, the American Institute of Accountants took the position that, "It believes that accounting and financial reporting for general use will best serve their purposes by adhering to the generally accepted concept of depreciation on cost, at least until the dollar is stabilized at some level. An attempt to recognize current prices in providing depreciation, to be consistent, would require the serious step of formally recording appraised current values for all properties, and continuous and consistent depreciation charges based on the new values. Without such formal steps, there would be no objective standard by which to judge the propriety of the amounts of depreciation charges against current income, and the significance of recorded amounts of profit might be seriously impaired."

In view of this position, the three companies sought to justify even larger deductions from earnings by adopting a method of accelerated depreciation on original cost instead of one based on estimated higher replacement cost. For this reason the propriety of the amounts charged to income as accelerated depreciation is open to question. Such accelerated depreciation is not allowable for Federal income-tax purposes, and is contrary to sound accounting practice if it includes a factor of amortization which is not susceptible of objective measurement and is therefore arbitrarily apportioned over the useful life of the property.[6]

In short, steel executives want the consumer, through the prices they make him pay to shoulder the burden not only of replacing the actual capital consumed in making the product sold (as he properly should), but they want to collect from him in addition the hypothetical amount of money that might be required in the future if present prices and costs keep replacement costs high. Indeed they even want consumers to pay during the current year the total costs of newly built productive capacity that may endure for a generation.

7. Steel prices were raised at virtually the same time by the same amount by all major steel producers.

No major steel company announced general price increases ahead of United States Steel although increases on specialty items were made by a few small steel companies earlier that month. On December 16, the same day that United States Steel raised domestic prices and lowered export prices, Youngstown Sheet & Tube Co. and the Wheeling Steel Corp. announced adjustments in their price structure wholly similar in pattern. On December 19, Republic Steel Corp., Pittsburgh Steel Corp., and Superior Steel Co. announced virtually identical changes. On December 20, Bethlehem Steel Corp., Jones & Laughlin Steel Corp., Allegheny-Ludlum Steel Corp., Wheeling Steel Corp., and Armco Steel Corp. followed suit.

Thus all the steel companies, whether integrated or nonintegrated, raised their prices by the same amount at the same time. Furthermore, all at the same time slashed their export quotations. However necessary the cut in export prices may have been to meet foreign competition, it certainly cannot be taken to imply that costs for export steel went down while those for domestic steel went up. Had there been an equally strong and continuing demand abroad, and had currencies in sterling areas not been devalued, export prices would probably have escaped readjustment. Domestic prices might similarly have remained unchanged, had it not been for the high backlog of orders, accentuated by the 43-day steel strike. The fact is of interest that almost none of the steel companies' executives mentioned demand as a significant reason for the current price increase.

That a degree of reluctance exists within the industry to try to get more business by lowering prices as costs go down was demonstrated during the first half of 1949. Operations then were curtailed in some cases down to 60 percent of capacity. Steel scrap prices plummeted from $43.25 in December 1948 down to $19.21 in July of 1949. Zinc, fuel oil, and other prices of materials used also went down. Despite

Federal Trade Commission, in Basic Data Relating to Steel Prices, p. 24.

decreases in raw-material costs that probably amounted to several dollars a ton, none of the companies, large or small, attempted to attract more orders through a display of old-fashioned price competition. Steel price changes for more than a decade have been on a one-way street: Up.

The uniformity of this price increase has attracted widespread attention in the industry. In a recent issue of Steel, for example, the comment is made:

> Now that many steel producers have issued new extra cards, it is possible for consumers to make detailed comparisons. A careful examination shows a *high degree of uniformity* among the extras issued by most companies.
>
> *This uniformity does not make sense in light of the reasons given for revising the extras.* When United States Steel announced its drastic revision of extras a month and a half ago, it explained that the purpose was to adjust extra charges so that they would conform more closely to the present-day *actual cost* of providing the special qualities, finishes, tolerances, sizes and services for which extras are charged. The revisions were supposed to bring extras more in line with today's manufacturing methods and costs.
>
> *Obviously there are striking differences between the operations of individual mills and of companies.* A producer whose mills are chiefly geared to narrow or medium width strip or sheet certainly has costs for extras that are *radically different* from those of a producer whose mills specialize on maximum widths. Notwithstanding this *glaring discrepancy,* today the extra cards of the two companies are *almost identical.*
>
> Such *unrealistic uniformity* probably will not continue long. Competition for the buyer's orders will be intensified during the next few months. Buyers can almost take it for granted that there will be numerous refinements in extras, all calculated to relate extra charges to the actual conditions affecting each producer.[7]

The argument is sometimes made that uniformity or identity of prices is itself proof of the existence of perfect competition. According to a fundamental tenet of elementary economics the market price at a given moment in a given place is so determined by buyers' bids and sellers' offers that all participants in the higgling process tend to buy and sell at the same price as that agreed upon by the marginal buyer and the marginal seller.

But the very existence of a marginal seller implies variation in sellers' offers. Thus in retail stores not only are meats and vegetables of the same weight and quality sold at varying prices in independent stores as opposed to supermarkets, but even the most casual observer can verify that a 5-cent candy bar of identical brand and wrapping sells in Washington, D. C., retail outlets at prices ranging from 6 cents down to 3 for 13 cents. The outstanding characteristic of merchandise availability under actual competitive conditions is variation in price.

In short, under competition, sellers' offers are rarely identical even in the same market and never so in markets long distances apart. But there is a theoretical normal or competitive equilibrium level [8] above and below which actual market prices tend to fluctuate in exactly the same way that the waves of the North Sea tend to vary around normal sea level. If the North Sea were perfectly flat over a large area, one would have either a most rare day of no winds or currents at all, or more likely the entire surface would be a frozen

[7] Steel, February 13, 1950, p. 47. [Italics have been added.]

[8] The rigorous theoretical conditions necessary to such pure and perfect competition are:

a For pure competition, that the product is more or less standardized; that neither buyers nor sellers have any preferences, attachments, priorities or commitments; and that the number of sellers is so large that none feels himself able, acting alone, to influence the general market. (Query: Can this possibly be true of all steel companies?)

b For perfect competition, that every buyer and seller has perfect knowledge of all the demand and supply activities tied together in his market; and that there are no frictional obstacles to price and quantity changes. Everybody can be everywhere at once.

level of ice. Similarly, prices in competitive markets swing continuously like the waves in the North Sea. If they are absolutely identical in a given market for a lengthy period of time, if all sellers' offers are identical as, for example, have been the bids on cement offered to the Government, or if they are identical over a very wide area, some type of managing or manipulating force is probably freezing them there.

If competition exists each buyer and each seller has a genuine choice of alternatives concerning products, prices, and price policies so that he will have reasonable freedom of opportunity to shop around. Competition presupposes a margin of transfer for all participants in the market. Under competition no one firm or combination of firms absorbs so much of the market as to make buyers' or sellers' choice price-wise impossible or exclude reasonable possibility of new competition springing up. Competition is necessary to preserve the technological creativeness of a decentralized system providing free scope for the independent choices of millions of businessmen, laborers and consumers. Free, private, competitive, independent, manager-owned enterprise is the handmaiden of political democracy.

8. Testimony indicated that independent fabricators and nonintegrated producers did not enjoy as large a price increase in the steel products they sold as in those they purchased.

In the hearings held by this committee under the chairmanship of Senator Taft in 1948 the fact was brought out that the increases then promulgated squeezed the independent fabricators.[9] The results appear clearly in the profit records of the individual companies as already noted in table II above. That the situation of the small companies may not have been improved by the December price increase is indicated by the comment of Iron Age in its issue of December 29. It stated:

> . . . the converters who buy hot-rolled strip and make and sell cold-rolled strip are squeezed. The base price on hot-rolled strip was not raised but the $3 base differential between hot- and cold-rolled strip is not much of a margin in view of the higher extras on hot rolled.

Stainless steel, to give a second example, was not increased in price. To be sure, it is not an important product, percentagewise, of the large integrated steel companies (stainless-steel production comprised

[9] This is well illustrated by the following section of the testimony of Mr. H. G. Batcheller, president of the Allegheny-Ludlum Steel Corp., and the questioning by the then chairman of this committee, Senator Robert A. Taft, and by Senator Francis J. Myers:

"Mr. Batcheller. . . . 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 semifinished to us had been increased by $7.30 a ton.

"The CHAIRMAN. You buy semifinished steel?

"Mr. BATCHELLER. We buy semifinished products.

* * * * * * *

"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 price of their product is hardly true in your case?

"Mr. BATCHELLER. That may be true in some cases, but it is not in ours.

* * * * * * *

"Senator MYERS. . . . You heard him [Mr. Homer, president of Bethlehem Steel Corp.] say that most of the users of semifinished steel were making so much money that they could absorb the increased price to them. . . . 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. 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."

From Increases in Steel Prices, March 2, 1948, pp. 80–81.

only five-tenths of 1 percent of the total steel shipments in 1948), but it constitutes a substantial part of the output of several of the smaller nonintegrated companies. Obviously, the cost of stainless steel, in which labor plays a much greater part than in the production of major-tonnage items, must have increased as much as the costs of the other steel products where prices were increased substantially. (Hearings, p. 527.)

Furthermore, wire rods were increased $9 a ton, but the wire products fabricated from such rods were increased only $7 a ton.

Unfortunately the amount of information provided concerning individual products and fabricators or consumers of each is far too meager to make a comprehensive analysis possible. Despite arduous efforts the committee was unable to induce fabricators to testify openly concerning the various price changes which squeezed their margins. They did not dare risk jeopardizing the purchasing arrangements and supplies of the semifinished steel they consumed.

9. There is evidence that even before the most recent increase, steel prices had risen so high as to make business investment in plant and equipment progressively less attractive cost-wise.

The Subcommittee on Investment has in a committee print entitled "Factors Affecting the Volume and Stability of Investment," indicated the large number of important factors which help to determine the amount of total private domestic investment, including that portion comprised by business expenditures for plant and equipment. Among the various demand and supply factors, a prominent place must obviously be given to costs, not to the costs, however, of reproducing exactly the old facilities, but to that reproducing equivalent capacity. Testimony developed in the hearings indicated that sometimes two new machines will take the place of three old ones.

Needless to say, the most important material used in constructing new plants, especially in manufacturing, is steel. Equipment and machinery similarly are made for the most part of steel. If steel prices are high, plant modernization, expansion, and replacement costs are high. If price increases are based on replacement costs, steel prices and replacement costs will obviously be chasing each other upward in a never-ending spiral. (Public utility commissions and the courts have accordingly unanimously rejected such circular reasoning in determining fair value, fair rates of return, and fair prices.)

As Congressman Patman stated:

> You use steel to build your plants, and as you increase the price of steel, the replacement value increases, and as the replacement value increases, you want higher prices so that more money can be set aside. (Hearings, p. 482.)

In planning a modernization program, manufacturers necessarily measure costs of new plant and equipment against additional receipts. What they get from consumers for manufactured products depends to a substantial extent on how good prices are of the things they sell. What they have to pay for plant and equipment depends likewise to a considerable extent on the price of steel. The attractiveness of new investment can be roughly measured therefore by comparing the prices of manufactured goods with the prices of metals and metal products which include as a dominant item, steel and steel products. When these are relatively high in price, one might expect investment in plant and equipment to be damped off somewhat. When these are relatively cheap, investment expenditures for plant and equipment would a priori be expected to be bolstered a bit.

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The crude comparison made in table V indicates that such indeed seems to be the case. It merits careful study. Note that the price ratio of metals and metal products to manufactured goods was high: 113.7 in 1921, 114.1 in 1932, 113.2 in 1933, 116.4 in 1938, 117.4 in 1939 and 1940, and 113.6 in January 1950. On the other hand, it was only 99.7 in 1920, ranged from 100 to 102.6 in 1925 to 1928, 99.5 in 1946 and 99.3 in 1947. These years were characterized by the largest investment boom in American economic history. Then came the substantial boost in steel prices late in 1948. Note that they have become steadily higher since that time and in fact are now at the highest relative levels since 1938 and 1939. It is perhaps no mere accident that during 1949 and continuing into 1950, business investment in plant and equipment has become progressively less attractive costwise.

TABLE V.—*Prices and private investment, 1919–50*

Period	Wholesale price index (1926=100) [1]			Gross private domestic investment [2]	Business expenditures for new plant and equipment [3]
	(1) Manufactured products	(2) Metals and metal products	(3) (2)÷(1)		
				Billion dollars	*Billion dollars*
1919	130.6	130.9	100.2	12.1	6.5
1920	149.8	149.4	99.7	16.0	7.3
1921	103.3	117.5	113.7	7.3	4.8
1922	96.5	102.9	106.6	9.6	5.1
1923	99.2	109.3	110.2	15.1	7.1
1924	96.3	106.3	110.4	11.4	6.9
1925	100.6	103.2	102.6	15.4	7.5
1926	100.0	100.0	100.0	16.2	8.5
1927	95.0	96.3	101.4	14.3	8.1
1928	95.9	97.0	101.1	13.5	8.4
1929	94.5	100.5	106.3	15.8	9.8
1930	88.0	92.1	104.7	10.2	7.6
1931	87.0	84.5	97.1	5.4	4.6
1932	70.3	80.2	114.1	.9	2.5
1933	70.5	79.8	113.2	1.3	2.3
1934	78.2	86.9	111.1	2.8	3.1
1935	82.2	86.4	105.1	6.1	3.8
1936	82.0	87.0	106.1	8.3	5.2
1937	87.2	95.7	109.7	11.4	6.6
1938	82.2	95.7	116.4	6.3	4.7
1939	80.4	94.4	117.4	9.9	5.7
1940	81.6	95.8	117.4	13.9	7.4
1941	89.1	99.4	111.6	18.3	9.3
1942	98.6	103.8	105.3	10.9	5.8
1943	100.1	103.8	103.7	5.7	4.6
1944	100.8	103.8	103.0	7.7	6.3
1945	101.8	104.7	102.8	10.7	8.7
1946	116.1	115.5	99.5	29.5	16.0
1947	146.0	145.0	99.3	31.1	20.6
1948	159.4	163.6	102.6	45.0	24.7
1949	151.2	170.0	112.4	36.8	23.2
1948:					
March	155.8	155.9	100.0	40.7	23.7
June	159.6	158.6	99.4	44.2	24.6
September	164.0	172.0	104.9	47.1	25.1
December	157.6	173.8	110.3	48.0	25.1
1949:					
March	154.1	174.4	113.2	41.6	24.5
June	150.7	167.5	111.1	35.4	23.8
September	150.1	168.2	112.1	35.0	23.4
December	147.9	167.4	113.2	35.0	21.2
1950—January	148.2	168.4	113.6	(4)	[5] 18.3

[1] Source: Bureau of Labor Statistics.
[2] Data for 1919-28 are tentative estimates. Source: Department of Commerce, Office of Business Economics. Quarterly data for 1948–49 are for the quarters ending with the end of the month given. 1950 figure is for the first quarter of 1950; preliminary estimate by committee staff.
[3] Data taken from the private gross investment sector of the national product, excluding changes in inventories, residential and nonprofit institutional construction, and farmers' outlays for construction, machinery, and motor vehicles. Quarterly data for 1948–49 are for the quarters ending with the end of the month given. 1950 figure is for the first quarter of 1950; a preliminary estimate by committee staff.
[4] Not available.
[5] Tentative preliminary estimate.

10. The deterrents to new enterprise in the steel industry were illustrated by the experience of a New England group of businessmen seeking to establish a new integrated steel mill there.

New England fabricators and manufacturers have been suffering for some time from the fact that the semifinished steel they buy has to come considerable distances with freight costs ranging from $10.20 to $15.60 a ton. But they hesitate to support a movement for a New England steel mill in fear that they will be cut off entirely by their major source of supply.

A vice president of the Federal Reserve Bank of Boston, Dr. Alfred C. Neal, speaking on behalf of the New England Council Steel Committee, demonstrated by numerous convincing exhibits that—

> . . . there is sufficient market to justify the establishment of an integrated steel mill with a capacity of approximately one and 1¼ million tons of ingots.
>
> *　*　*　*　*　*　*
>
> . . . the cost of making steel at such an integrated mill in New England and the profits that might be derived from such a mill would, on the basis of the estimates available, justify investment in it. (Hearings, p. 409.)

In answer to the question why the major producers had not seized so profitable an opportunity to establish a mill of their own, Dr. Neal found after careful survey of large companies, that—

> Each has had to consider in its calculation whether in establishing a New England mill it would not be competing with its other operations. The competition would be both direct and indirect. First, to the extent that they were now selling steel in New England and the adjacent market from other mills of their own company, they would be cutting their own mills out of the market. More important than that, however, has been the consideration of indirect competition. They have been selling to large customers located in the territory adjacent to their present mills. They realize that the establishment of an integrated steel mill in New England to serve one of the richest market areas in the country, accounting as it does for nearly one-quarter of the Nation's income, would offer a strong magnet to some of their customers to establish fabricating facilities in the territory adjacent to the New England mill, or to expand fabricating facilities already located there. They would therefore face the possibility of losing sales to customers in the territory of their present mills by establishing a New England mill.
>
> *　*　*　*　*　*　*
>
> Spending money derived from retained earnings—which in turn were derived from the prices at which steel is sold—for the purpose primarily of protecting past investments in what may be uneconomic locations, can hardly be considered to be rewarding to the consumer who puts up the money in the form of the higher prices that he pays for steel. If steel consumers in our territory were paying higher prices for steel today and could foresee in the future the establishment of a mill in their territory which would save them in freight the amounts that I indicated earlier—$5 to $9 a ton and more—then I think that they would feel that the sacrifices that they were making by paying the higher prices for steel today would be rewarded later . . . But as matters now stand, and as they will remain until a New England mill is established, they simply see higher prices for steel today and the prospect that in the future they will either have to move or go out of business. Consumers have no voice in the decisions as to where these sums will be spent which are being raised by virtue of higher prices . . . (Hearings, pp. 432–433.)

11. The recent increase in steel prices was not only untimely but unwarranted and may set off a substantial downturn in business activity late this year.

On December 16, when the steel price increase was announced, the Journal of Commerce (New York) in its column "Commodity trends" analyzed the price increase, coming to the conclusion that "steel prices are notoriously poor barometers for the over-all price trend."

The Journal of Commerce elaborated that theme as follows:

> The steel industry is traditionally a slow and later mover on prices. . . . That's why its timing on price changes frequently has been off . . . if viewed in retrospect.
>
> Here is what historical precedents show: 1920—composite finished steel prices were raised 2.7 percent in August 1920. This despite the fact that the Bureau of Labor Statistics comprehensive wholesale price index had made its peak in May and industrial production had started to retreat in March. The result of all this was that the peak steel price held only for 2 months. 1929—steel prices were advanced by an average of 1 percent as late as April 1929 although the BLS wholesale price index had been declining since September 1928. The FRB production index did not make its peak until August 1929, and steel prices started to recede gradually during the second half of the year although the decline did not speed up until 1930. 1937—steel prices were advanced about 2¼ percent in April of 1937. That was the very month in which the over-all BLS price index set its peak. Industrial production started to reverse itself in May 1937 but that time the steel-price increase held well into 1938. (Parenthetically, the BLS iron and steel index did not make its peak until August that year, or 4 months after the composite finished steel price.)
>
> These past experiences hardly permit any conclusion as to how long higher steel prices can be made to stick this time—let's say once the poststrike demand increase peters out and the industry is once more producing for current requirements only, rather than to replenish strike-depleted customers' inventories.

Perhaps the most authoritative body that has weighed and assessed the total economic justifiability and effect of recent steel price increases is the Council of Economic Advisers. In their January 1950 economic review published as part of the Economic Report of the President, the Council states:

> Price increases, instead of being called inflationary, should be regarded as fundamentally retarding in that they will reduce our likelihood of gaining maximum production and employment by imposing further restrictions upon a level of demand which is not yet sufficiently high. If there is any room for price change in some vital industrial areas, it is in a downward and not in an upward direction. Earnings are generally rewarding, though not so high as a year ago, and they can best be protected and advanced by those policies which will maintain and expand volume. Steel prices are a case in point. Steel affects the whole economy, and some reduction in steel prices would favorably influence the whole economic situation. A stable and expanding economy requires a growing volume of steel output and of those other basic products which use steel. Some of these other products, whose prices are affected by steel prices, are also priced at a level where sustained and growing output seems uncertain at current prices. The statements of the steel industry accompanying the recent price increases did not in our judgment impair the shortly prior findings of the Steel Industry Board. These findings were to the effect that the price-profit-cost situation in the steel industry, allowing for pensions, did not justify price increases and in fact left room for price decreases in view of no wage-rate increases.

IV. RECOMMENDATIONS

The facts developed at the hearings must be considered against the background of other public proceedings involving the steel industry. Notable among these was the proceeding brought by the Federal Trade Commission in November 1947 against the American Iron and Steel Institute, the United States Steel Corp., and some of its subsidiaries, the Bethlehem Steel Corp., Republic Steel Corp., and more than 80 other producers of steel, in which it was specifically alleged that the steel industry as a whole was using unfair methods of competition and unfair and deceptive acts and practices prohibited by the Federal Trade Commission Act.

When the Federal Trade Commission completed its presentation of evidence, an offer of settlement was made on behalf of the American Iron and Steel Institute, United States Steel, Bethlehem, Republic, and other respondents. These steel companies were willing to have the Federal Trade Commission issue an order against them by which they would be prohibited from cooperating with one another in the compilation and distribution among themselves, for use in fixing prices for steel products, of freight tariff books, lists of freight rates, common-carrier charges, or what had been known in the steel industry as "freight rate factors." They were willing to accept an order that these common pricing devices would not be compiled and distributed by the American Iron and Steel Institute or by any other agency acting for them. These were among the instruments by which it was alleged by the Federal Trade Commission, and in support of which the Federal Trade Commission produced substantial evidence, that the steel industry was acting in concert to fix prices which American consumers were bound to pay.

The respondents, in expressing their willingness to accept a "cease-and-desist order" issued under the Federal Trade Commission charge of having committed unfair trade practices, have argued that the order against them should be issued without a finding of fact. The Trade Commission was presented with voluminous copies of the compilations of freight-rate factors, tariff books, common-carrier charges and the like, which had been prepared and distributed regularly for steel-industry use, and which had been used for the express purpose of pricing various steel products.

The order has not been issued, not because there is any dispute as to the facts, but only because the steel companies have wanted the Federal Trade Commission to issue an order without a finding of fact, although, of course, the only jurisdiction of the Trade Commission under the Federal Trade Commission Act is to prohibit unfair trade practices.

It might be that some naive person would argue that the uniformity of price increases for domestic consumers and price decreases for export, which has been the occasion of two hearings before this committee—one in 1948 under the chairmanship of Senator Taft, and the other in January 1950 under the present chairman—was just a strange coincidence. Whether it was or was not a coincidence, whether there is now competition in the steel industry or whether there was competition when the respondents in the Federal Trade Commission proceeding expressed a willingness to accept an order requiring them to discontinue pricing agreements may be merely an academic question, but the fact is that uniformity of price action in the steel industry under the leadership of United States Steel and Bethlehem has not disappeared since the Federal Trade Commission proceeding was begun.

One of the witnesses before the committee, Mr. W. H. Colvin, Jr., president of Crucible Steel Co., in an additional statement submitted after the hearings and appearing at page 556 of the printed hearings, made this important declaration:

> Some force somewhere is driving the [steel] industry toward elimination and concentration. If conditions exist and persist which make survival for many units impossible, no law you can pass can prevent elimination and, therefore, concentration.

To this it might be said that if conditions are existing which are forcing the elimination of competitive units, and thereby promoting concentration, Congress could by law change those conditions, but to do so, it must be clearly aware of the facts, and the public must also be aware of the facts—facts such as those which were produced in the Federal Trade Commission proceeding and in the hearings of this committee.

It is an unfortunate fact that demands upon congressional time over a long period of years have been compelling the delegation to special agencies of congressional power to ascertain facts. This delegation of power by Congress has continued, irrespective of partisan control, ever since the Interstate Commerce Commission was first established. More facts are needed now, and it is to promote the development of the facts that the following recommendations are made:

1. Information of the type sought but not obtained by this committee, namely data on prices, output, costs, and profits of each of the major steel producers, should be systematically collected by the Federal Trade Commission and kept currently available for use by the Congress. This program should be undertaken immediately to facilitate the study called for under recommendation No. 3 below.

The hearings clearly demonstrated that the great steel companies of this country exercise such tremendous power and have such influence on all segments of American economic life that they are endowed with a degree of public interest far different from that which resides in the ordinary small business managed by a single proprietor. As the chairman pointed out in opening the hearings:

> We are living in a different world from that in which our predecessors of 50 or 100 years ago lived when practically all business and industry was conducted by individuals with their own capital and their own labor, and when a partnership represented the most complex economic organization that existed. We now live in a world of industrial centralism in which the control of both production and price of most of the industrial commodities that the people need is settled by the decisions of a few private managers in private conferences. Hearings, pp. 1–2.)

Dr. Edwin G. Nourse, former Chairman of the Council of Economic Advisers, wrote in the same vein in his book Price-Making in a Democracy, published by the Brookings Institution in 1944:

> There is an obvious incompatibility between the democratic concept of real freedom of enterprise for the individual and the aristocratic concept of complete freedom of enterprise for the corporate business, allowed to grow with no external restraint and to use its pyramiding power as it may see fit, both against small corporate units and against the individual persons who contribute their productive efforts within the corporation itself.

In the steel-price hearings of this committee in 1948, Senator Flanders pointed out to the president of the United States Steel Corp. that the large steel corporation finds itself in "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."

One of the most important of current domestic economic problems is that of administered prices, which occur in many industries where a substantial proportion of the output is accounted for by a few large companies. Economic studies of industries that follow administered price practices are grievously needed in order to determine and evaluate their effect upon the national economy. To enable Congress and the public to obtain this information, the committee recommends that the Federal Trade Commission be directed to use its existing powers to collect and make available to Congress and this committee basic cost, price, and profits data of industries where a substantial proportion of the output is accounted for by a few large companies. In particular, the Federal Trade Commission is urged to make continuing studies of identical pricing, reporting quarterly thereon to this committee. The steel industry is such an industry. Publication of such data and of economic studies of the industries following administered price practices may produce a deterrent effect on practices which adversely affect the economy.[10]

2. In the interests of preserving competitive free enterprise and protecting the public from arbitrary increases in prices, this committee recommends that steel producers file with an appropriate agency of the Federal Government their schedules of proposed price increases, that speedily hearings be held to get the facts on the reasons for, and general economic effects of, such increases, and that such industry-wide price increases be deferred for a definite period of, for example, 30 days after such announcement. Isolated, independent price increases on individual products made by individual concerns are not affected.

Senator O'Mahoney, on the opening day of the hearings, observed that:

> Capitalism cannot successfully defend itself if it insists that the modern collectivist economic unit shall be governed from above by management according to its own unsupervised will. Capitalism must begin at the beginning and take whatever steps may be necessary to make the modern economic organization responsive to the people. It must be prepared to accept economic democracy, that is to say, it must be prepared to make private management, as well as public management, subject to the public interest.
>
> This should not be regarded as an attack on management. It is not. The modern world requires management. It requires private management and it requites public management. The necessary objective of public policy . . . is only to provide a rule of orderly procedure and responsibility, a set of standards by which both private and public managers may be guided, while at the same time to prevent excesses, whether committed by managers in either group.
>
> Government bureaus, for example, should no longer be permitted to make and interpret economic law. Private management likewise should not be permitted to do the same thing. If Government regulatory bodies are to have set over them, as they should, an impartial tribunal to which the citizen and the citizens' organizations may appeal from administrative rules, regulations, and decisions, then surely there must also be a tribunal to which the citizen and his organizations may appeal from the administrative rules, regulations, and decisions of private management. . . . (Hearings, p. 4.)

In the interests of preserving our competitive economic system and of protecting the public from arbitrary decisions of monopolistic enterprises, a "cooling off period" for industry-wide price increases may be advisable, especially in industries such as steel where a large percentage of the production of essential commodities is produced by a few producers. In 1949, for example, nine producers accounted for 78.9 percent of all steel capacity, the largest three for 56.3 percent. In such industries, major producers might be asked to file with an appropriate agency of the Federal Government a notice of intention to increase prices. Hearings could then be held at which the producers and other interested parties could testify on the justifiability of the proposed increase and the effect of this increase on the rest of the economy. Only after such a hearing and designated length of time, would price increases in such key industries be promulgated and effectuated.

[10] The decision in *U. S.* v. *Morton Salt Co.* (S. C. Nos. 273 and 274, October term, 1949) delivered February 6, 1950, helps clarify the authority of the Federal Trade Commission to require special corporation reports under sec. 6 of the Federal Trade Commission Act.

3. Along with these recommendations we further recommend that this committee consider a study of the means whereby a greater degree of competition within the steel industry may be achieved.

The dangers of concentration within the steel industry were clearly pointed out in the opinion of Supreme Court Justices Douglas, Murphy, Black, and Rutledge in the Columbia Steel Co. case in 1947 as follows:

> Size can become a menace—both industrial and social. It can be an industrial menace because it creates gross inequalities against existing or putative competitors. It can be a social menace—because of its control of prices. Control of prices in the steel industry is powerful leverage on our economy. For the price of steel determines the price of hundreds of other articles. Our price level determines in large measure whether we have prosperity or depression—an economy of abundance or scarcity. Size in steel should therefore be jealously watched. In final analysis, size in steel is the measure of the power of a handful of men over our economy. That power can be utilized with lightning speed. It can be benign or it can be dangerous. The philosophy of the Sherman Act is that it should not exist. For all power tends to develop into a government in itself. Power that controls the economy should be in the hands of elected representatives of the people, not in the hands of an industrial oligarchy.[11]

Both major political parties have repeatedly emphasized the importance of vigilantly maintaining free independent, competitive enterprise in our economy. An excellent illustration is afforded by a statement approved without objection by all the members of the Temporary National Economic Committee, Republican and Democratic alike. In their final report, they state:

> Governments are instituted among men to serve men; men were not created to serve government. It is not the function of government nor of those to whom the duties and responsibilities of government are temporarily entrusted to direct and command the activities and the lives of men. It is the sole function of government to produce and preserve that order which will permit men to enjoy to the utmost that free will with which they were endowed by an all-wise Creator.
>
> If, however, the political organization which we call government is called into existence by men for the benefit of the entire community, a principle which as Americans we must all acknowledge, it is equally true that the economic organizations, called into existence by men to meet their material needs, are likewise justified only to the degree in which they serve the entire community. If the political structure is designed to preserve the freedom of the individual, the economic structure must not be permitted to destroy it.
>
> Business organization, like government organization, is a creature of man, a tool by which mankind endeavors to advance its material prospects. Like government organization, business organization has no right or function to control the activities and the lives of men.
>
> * * * * * * *
>
> Private enterprise must be protected from destruction by concentrated group activity. The concentration of economic power and wealth . . . must first be stopped, if enterprise it to be kept free from government control.
>
> The objective of government should be to foster and stimulate free enterprise rather than to supersede it. In other words, democracy's task is to take those precautions which will keep both business and government democratic.[12]

A study of the means by which a greater degree of competition in the steel industry could be attained would require consideration not only of bigness as such but of many correlative facets of the problem including: The effectiveness of dissolution and other procedures under our antitrust laws; the extent of mergers and other interlocking relationships; the pricing policies of the major companies and their effect on smaller units of the industry; the ways in which production,

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[11] U. S. Supreme Court, No. 46, October term 1947, the *United States of America, appellant* v. *Columbia Steel Company, Consolidated Steel Corporation, and United States Steel Corporation.*

[12] U. S. Temporary National Economic Committee. Investigation of Concentration of Economic Power. Final Report and Recommendations. (77th Cong., 1st sess., S. Doc. No. 35), 1941, pp. 5, 8, 9.

transportation, and financial interests are interrelated in the steel industry; the feasibility of Federal supplementary charters for corporations engaged in interstate commerce; the revision of patent legislation; the types of financial and other assistance to new and small units in the steel industry required to implement fair competition; and other matters.

4. With the express purpose of revealing the effect on free, competitive enterprise of present trends in the steel industry, a study should be authorized to examine the extent to which the steel industry has developed technological and economic similarity to public utilities and has acquired such strategic importance in war, peace, and in the maintenance of high-level employment as to become uniquely affected with a public interest in order that the Congress may determine what, if any, legislation should be adopted for the preservation of competition.

Judge Elbert H. Gary, the distinguished elder statesman of the steel industry a generation ago, and illustrious chairman of the board of directors of the United States Steel Corp. (in testimony before a House Committee on Investigation of United States Steel Corp., Augustus O. Stanley, chairman, hearings, 8 vol., 1911), stated his position as follows:

Mr. GARY. I do not hesitate to say, Mr. Chairman, what I said 2 or 3 years before in appearing before a congressional committee. I realize as fully, I think, as this committee that it is very important to consider how the people shall be protected against imposition or oppression as the possible result of great aggregations of capital, whether in the possession of corporations or individuals. I believe that is a very important question, and personally I believe that the Sherman Act does not meet and will never fully prevent that. I believe we must come to enforced publicity and governmental control.

Mr. YOUNG. You mean governmental control of prices?

Mr. GARY. I do; even as to prices, and, so far as I am concerned, speaking for our company, so far as I have the right, I would be very glad if we knew exactly where we stand, if we could be freed from danger, trouble, and criticism by the public, and if we had some place where we could go, to a responsible governmental authority, and say to them, "Here are our facts and figures, here is our property, here our cost of production; now you tell us what we have the right to do and what prices we have the right to charge." I know that is a very extreme view, and I know that the railroads objected to it for a long time; but whether the mere standpoint of making the most money is concerned or not, whether it is a wise thing, I believe it is the necessary thing, and it seems to me corporations have no right to disregard these public questions and these public interests.

Mr. LITTLETON. Is it your position that cooperation is bound to take the place of competition?

Mr. GARY. It is my position.

Mr. LITTLETON. And that cooperation therefore requires strict governmental supervision?

Mr. GARY. That is a very good statement of the case. I believe that thoroughly.

The steel industry has, of course, grown enormously more important in the 39 years since Judge Gary expressed his convictions. It is the foundation upon which virtually our entire industrial power is based. With that enormous industrial strength this Nation helped world democracy to win two gigantic world wars. The steel industry is the mainstay and provides the sinews of American ability to win both the cold war and the ideological competition with other systems of political economy.

The Federal Government alone has been estimated to purchase directly and indirectly more than 2,000,000 tons a year. Employment in the steel industry is the area most severely affected in any major industrial reverses. The size of the economic aggregates in that industry has multiplied nearly tenfold since Judge Gary made his pronouncement. Steel prices ultimately affect all other industrial prices. "As goes steel so goes the country" has long been a cardinal business maxim.

A generation later, in 1938, Myron C. Taylor, chairman of United States Steel's board of directors, stated:

> The affairs of the corporation cannot be considered apart from the affairs of the Nation. . . . It is a national institution and its pulse throbs with that of the Nation. And so it cannot be successfully managed solely and restrictedly as a commercial enterprise. . . . The lines of interest of the corporation considered as a whole and of the public as a whole must run parallel—for the corporation cannot exist except as it serves the public. These are not mere words. They express a fundamental truth.[13]

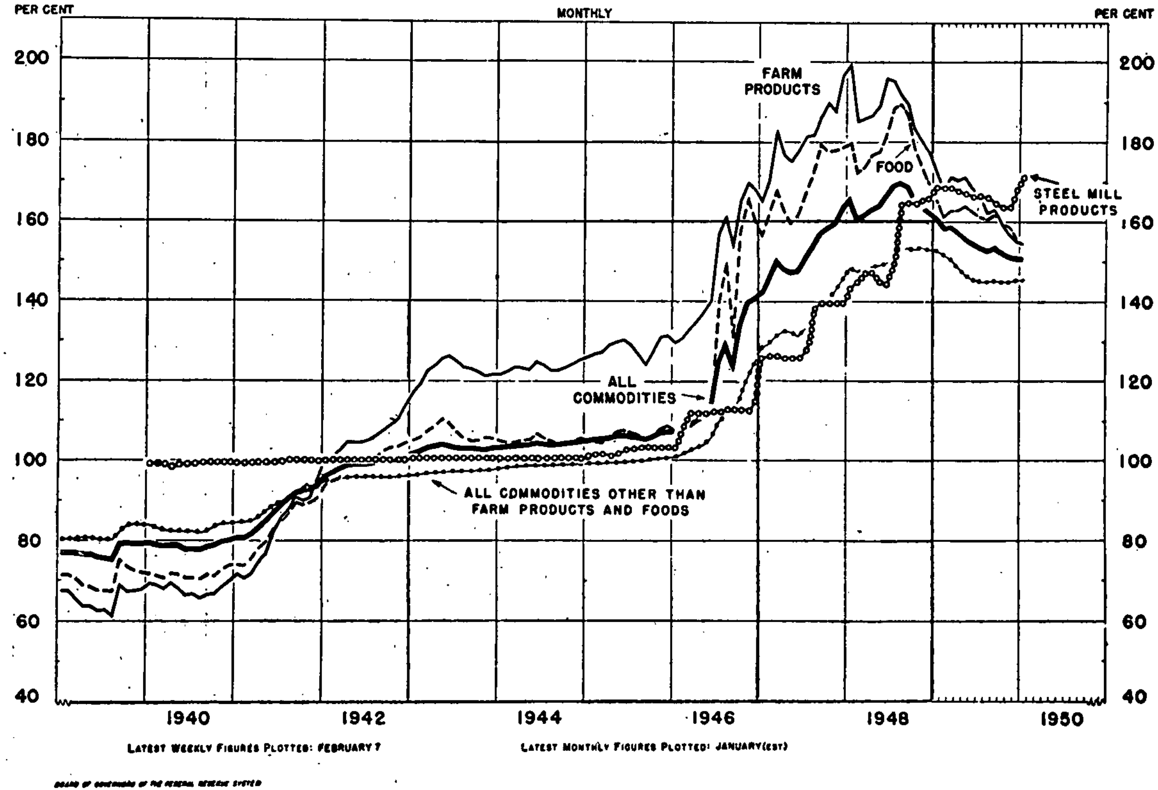
These among other considerations have suggested that Judge Gary's thesis might well be reexamined. We recommend that a study and report be authorized with wide participation by all groups affected—raw-material suppliers, labor, small-steel business, large-steel concerns, fabricators, consumers, State, local, and Federal Government purchasers and the general public.

JOSEPH C. O'MAHONEY, *Chairman*;
FRANCIS J. MYERS.
JOHN SPARKMAN.
PAUL DOUGLAS.
EDWARD J. HART, *Vice Chairman*.
WRIGHT PATMAN.
WALTER B. HUBER.
FRANK BUCHANAN.

[13] Myron C. Taylor, extension of remarks at annual meeting of stockholders, 1938, pp. 2, 3 and 6.

WHOLESALE PRICES

BUREAU OF LABOR STATISTICS INDEXES, 1926=100



APPENDIXES

Appendix A

United States Department of Labor,
Bureau of Labor Statistics,
Washington, February 21, 1950.

Memorandum.
To: Mr. Theodore J. Kreps, Joint Committee on the Economic Report.
From: Edward D. Hollander, Chief, Division of Prices and Cost of Living.
Subject: Tabulation and chart showing index numbers (1926=100 of wholesale prices for all commodities, farm products, foods, other commodities (BLS classification "All commodities other than farm products and foods"), and steel-mill products.

In accordance with your request of Mr. Jesse M. Cutts, Chief of our Branch of Industrial Prices, there is attached a tabulation showing index numbers (1926=100) of prices of steel-mill products by months from January 1940 through January 1950.

There is also attached the chart which you submitted and to which have been added the available figures from our regular index series for January 1950 and the fifth line showing the index of prices of steel-mill products from January 1940 through January 1950.

Steel mill products price index[1]

[1926=100]

Month	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
January	99.5	99.7	100.0	100.1	100.1	101.0	103.4	125.9	143.0	168.3	171.1
February	99.5	99.7	100.0	100.1	100.1	101.5	107.7	126.5	145.4	168.4	-------
March	99.4	99.7	100.0	100.1	100.1	101.5	112.0	126.5	147.4	168.3	-------
April	98.7	99.8	100.0	100.1	100.1	101.5	112.1	126.2	147.4	167.9	-------
May	99.3	99.8	100.0	100.1	100.1	101.9	112.1	126.2	145.2	167.1	-------
June	99.4	99.8	100.0	100.1	100.1	103.3	112.2	126.2	145.1	166.7	-------
July	99.6	99.9	100.0	100.1	100.1	103.3	112.4	128.2	149.9	166.7	-------
August	99.7	100.0	100.0	100.1	100.1	103.4	112.7	138.8	164.6	166.0	-------
September	99.7	100.0	100.0	100.1	100.1	103.4	112.8	139.5	164.8	164.8	-------
October	99.7	100.0	100.0	100.1	100.1	103.4	112.8	139.5	164.9	163.9	-------
November	99.7	100.0	100.0	100.1	100.1	103.4	112.8	139.5	165.6	163.9	-------
December	99.7	100.0	100.0	100.1	100.1	103.4	115.3	139.5	166.0	167.6	-------
Year	99.5	99.9	100.0	100.1	100.1	102.5	111.5	132.0	154.1	166.6	-------

Source: U. S. Department of Labor, Bureau of Labor Statistics, Feb. 21, 1950.

[1] A special index compiled at the request of the Joint Committee on the Economic Report including all finished and semifinished steel-mill products in the iron and steel subgroup of the Bureau of Labor Statistics wholesale (primary market) price index. The weight used for each product is that used in the compilation of the Bureau's regular iron and steel subgroup.

Products included in the special index of steel-mill products

	BLS Code		*BLS Code*
Angle bars	398	Wire rods	442. 1
Bars, tool steel	401–1. 1	Sheets, hot-rolled	446. 3
Bars, alloy steel	402. 1	Sheets, cold-rolled	447. 3
Bars, concrete reinforcing	403. 2	Sheets, galvanized	448. 3
Bars, hot-rolled	404. 2	Skelp	449. 1
Sheet bars	405. 2	Spikes	450. 1
Bars, cold-finished	406. 3	Strip, cold-rolled	451. 2
Billets	408	Structural steel	452. 2
Boiler tubes	409. 2	Terneplate	453. 2
Bolts, track	413	Tie plates	454. 1
Nails	424. 2	Tin plate	455. 1
Pipe, black-steel	435. 1	Wire, smooth, annealed	457. 1
Pipe, galvanized steel	436. 1	Wire, galvanized barbed	458. 2
Plates	438. 3	Wire, galvanized fence	459. 1
Rails, standard	439. 1	Woven wire fence	460. 2

Source: U. S. Department of Labor, Bureau of Labor Statistics, Washington, D. C., Feb. 15, 1950.

Appendix B

List of questions submitted to the United States Steel Corp. before the committee hearings.

1. Were steel prices increased as of December 16 on the average, $4 a ton, or were they increased 4 percent? How were these average figures computed? What base prices, extras and weightings were used in computing these average increases? For each of your major products what were base prices and average extras before and after the December 16 price increase?
2. What change, if any, occurred in export prices? On what items?
3. How much have your costs gone up since January 1949? Raw materials costs? Freight costs? Labor costs per ton of steel? Overhead costs? Please specify. Which of these have gone down?
4. Did you raise prices on the basis of past cost increases? Are profits lower in 1949 than in 1948 and previous years?
5. Did you raise prices wholly on the basis of expected or future costs? How much do you figure the new pension program will cost? Please express the total increase you anticipate as a percent of pay rolls, as a percent of sales price, and in terms of cents per ton.
6. Have you increased plant capacity since 1946? For what products? How much? For each of the years 1946 through 1949, what were your expenditures for (*a*) plant and equipment (other than current maintenance and repair) and (*b*) ore development. How much of these expenditures were for increasing capacity, how much for modernization and replacement of existing capacity, and how much for expansion of facilities for fabrication of finished steel? To what extent has your modernization program resulted in increased productivity per worker? What expenditures for the above purposes are contemplated at this time for the years 1950–52?
7. What were the sources of funds for these purposes for each of the years 1946 through 1949, classified by amount as follows: Depreciation, profits after taxes, undistributed earnings, and new security issues if any (types, amounts, and dates)? What old security issues or long-term debts were retired?
8. In raising the price of steel products, what were the effects which you anticipated and considered? How do you feel fabricators and nonintegrated competitors are affected? What will be the impact on investment in new plant and equipment by your ultimate customers? What will be the effect on farm prices, on housing costs, on Federal Government expenditures?
9. If the basing-point system should be reestablished, would you absorb the freight? How much do you estimate that it might be per ton? Would you then have to raise prices again? How would the success of new steel mills in New England or elsewhere be thereby affected?

MINORITY VIEWS

We have not signed the majority report on the steel hearings, first, because it does not analyze correctly the basic problems involved in our investigation; second, because the whole report instead of being an impartial appraisal is rather a bill of complaint with a faulty economic brief to support the complaint; and third, because we do not agree with many of the conclusions and recommendations.

The fundamental question as we see it is whether prices of steel are higher than they should be because of conditions in the steel industry, and if so whether legislative action should be taken to remedy that situation. Under our system of economic freedom, the correct price is that which would result from free and open competition, both on the producers' side and the consumers' side. An abnormal demand, however, may justify a higher price temporarily for all types of commodities, agricultural or manufactured, in a free market. If such demand appears to be permanent, it will presumably lead to the construction of additional facilities. On the other hand, an abnormally low demand will lead to prices less than those fixed by competition under normal conditions. The fact that companies make larger profits in times of abnormal demand does not seem to us subject to criticism, and perhaps is even necessary to stimulate the construction of additional facilities, as well as keep in operation needed marginal or high-cost facilities to supply peak demands.

There can be no doubt that the normal competitive price is affected by increases in cost which apply more or less generally to the entire industry. Few producers are willing to reduce the price to less than the cost of production even under heavy competition. Certainly, they cannot do so for long. Therefore, an increase in any component of cost must, under a competitive system, increase the price of the product unless it is compensated by decreases in the costs of other components. Cost increases over a period of years might be balanced by increased efficiency, new methods, and improvements in plants and facilities. With regard to the new pension contracts, there can be no doubt that the increased cost to the steel companies will under a competitive system or a noncompetitive system be reflected in higher steel prices in the long run, other costs remaining the same. The employees cannot get something for nothing, and we should not try to deceive either the men or the public into believing that pensions are to be paid without cost to the consumers of steel, who are all the people of the United States. Based on the evidence presented, we are inclined to think that the recent increases reflect substantially the increased cost of the pensions granted.

It does not follow, however, that the resulting price of steel may not be too high. Perhaps it was too high before the last increase. The exact time and cause of increases is hardly material, except on the assumption that the price of steel is entirely in the control of the steel companies and is moved up and down in their discretion. Is such an assumption justified?

What we have to decide is whether the price of steel today is so high that it suggests a lack of competition and a price controlled by the companies. We have studied the record and do not find any direct evidence of lack of competition. We do not regard the mere fact that other companies are likely to increase their prices when the United States Steel Corp. increases its prices as evidence of lack of competition. In fact, if competition were active it would necessarily follow, first, that smaller companies could not increase their prices above the United States Steel prices without losing business, and, second, that when United States Steel raises prices they probably can get a higher price also and still retain their customers. The fact that the Department of Justice has not even charged (much less proved) the steel companies with Sherman law violation tends to support our belief that competition exists.

If the majority of the committee is convinced that there is a monopoly in the steel industry or that there is any restraint of trade, they should certainly have presented their evidence to the Department of Justice and asked for a prosecution under the Sherman law. In our economic discussion, we have assumed that the Department is prosecuting every law violation known to it.

The more serious doubt which we have is whether the position of the United States Steel Corp. gives it such a preponderant voice in the determination of prices as to amount to a modification of the effect of free competition. We see nothing in the evidence on which we can determine this one way or the other. Profits at the present time are higher, but there has been a long period of very extraordinary demand, both during the war and to make up the deficiencies of war. There has been a sellers' market. Since a large part of this demand appears to be permanent, all of the companies to maintain their position will have to increase their facilities and expend large sums on improvements. They cannot afford to cut prices to get a temporarily larger market for themselves because they might deprive themselves of the funds necessary to take care of the future. Certainly, as long as demand remains reasonably high, the incentive to compete by the reduction of prices is greatly weakened. We are inclined to believe that a reduction of steel demand would very rapidly bring about greater competitive pressures which would be reflected in reduced prices.

The recommendations of the majority of the committee look strongly in the direction of governmental price control. In this respect they are in accord with the controlled economy policies of the administration set forth in the bill now pending, introduced by Representative Spence—H. R. 2756. That bill also contemplates the power to fix prices and control distribution. It provides further that if a study by Government economists indicates a possible shortage of steel in the future, the Government will be authorized to build steel plants. Of course, lack of adequate steel capacity may be brought about by the too harsh use of the price-fixing powers, or the fear of such legislative action.

Recommendation No. 2 puts every one of the 94 fully integrated and semi-integrated, and 175 nonintegrated steel companies on trial every time they increase any one of several thousand product prices. The only actual power recommended is the postponement of price increases for 30 days, but it seems clear that any action by a steel company contrary to the recommendations of a Federal board would bring an immediate demand for price-fixing powers.

The fourth recommendation is a study to determine whether the steel industry has not practically become a public utility. The clear implication is that it should be subjected to price fixing just as public utilities are subjected to rate fixing.

We disagree with this approach to the problem. If the prices are too high because competition has not worked effectively, then our first effort should be to restore competition. As we see it, the only justification for steps looking toward price control would be the complete surrender of the possibility of maintaining a free competitive system in any industry. This is the justification for rate fixing in case of the railroads and in the utilities. If competition doesn't work and some monopolist is going to fix the price, then the public will demand that the Government do that fixing itself; but the result is generally much less progressive than is a competitive operation.

We are prepared to join with the majority in recommending further study, but we feel very strongly that that study should be directed toward the question whether competition is effective in the steel industry and if it is not, how it can be made more effective.

To make clear the reasons why we have criticized the tone of the majority report, we submit a detailed criticism of numerous features which seem to us clearly to show unreasonable bias.

EXAMPLES OF BIAS IN THE MAJORITY REPORT

Bias was shown even before the investigation was announced by the chairman of the committee, in a release on *December 15, 1949*, 5 weeks before the hearings opened, as follows:

STEEL PRICE INCREASE AN UNWARRANTED TAX INCREASE ON ALL BUSINESS

On the record, the steel industry is not justified in levying an increased tax upon the whole economy of the United States, as the proposed price increase by the United States Steel would be if followed by the other companies.

* * * * * * *

In the face of steel's amazing record of earning power, a record which is borne out by additional statistical material which shows that in 1948 the steel industry as a whole was enjoying the highest rate of return in more than 25 years, I feel definitely that there should be no steel price increase at this time. The industry will be acting against its own interest and against the interest of all American business if it persists.

On January 10, 1950, the chairman of the committee issued a statement containing the following:

Four-day hearings will open on Tuesday, January 24, on the steel price problem arising from the announcement by United States Steel on December 16, 1949, of an increased price for domestic consumers and a decreased price for certain key exports.

* * * * * * *

The committee is in search of the facts. Every attempt will be made to have all vital interests represented.

The majority have given themselves the appearance of "obtaining the facts" and then arriving at conclusions previously foreshadowed in the prehearing press releases. This is evidenced by the careful selection of quotations from witnesses who appeared, from editorials and other newspaper comments, as well as the omission of references to much pertinent evidence submitted to the committee, contained in the 565 pages of testimony and exhibits of the printed hearings.

The broad conclusions derived from limited and selected statements and figures reflect the tripartite role of the writers of the report—that of prosecutor, judge, and jury. The report does no credit to a committee set up by Congress to study, analyze, review, and report on economic matters of broad significance in an impartial, scientific, and constructive way, and is an affront to the American sense of fair play which should be expected from such a committee.

Any thoughtful consideration of matters pertaining to the economic aspects of the steel price increases in December following the settlement of the pension issue in the steel strike must take into account the testimony before this committee in these hearings in order to properly appraise both the majority and minority reports thereon.

The following is a running comment in regard to particular statements and conclusions in the report:

(1) The opening paragraph of the majority report states:

> The steel industry is the largest manufacturing industry in the Nation. It dominates our entire industrial output. Because of its military, strategic, and economic importance, total employment, and business activity are peculiarly and inescapably involved. The decisions made by its executives with respect to production, expansion of facilities, wages, and prices have a spiralling effect on the entire national economy. The announcement on December 16, 1949, by the United States Steel Corp., of an impending increase in steel prices profoundly influenced the outlook and sentiment of businessmen throughout the country.

These are broad generalizations having the calculated effect, if accepted, of providing the ground work for pointing the finger of blame to be applied as, if, and when an unfavorable turn in the economy may occur.

There is no denying that the steel industry is large and important in terms of number employed, value added by manufactures, or other bases of comparison. Other industries, according to the Statistical Abstract of the United States for 1949, are of equal size or even larger, depending on basis or definition used. To conclude from the size of any of these industries, whether iron and steel, coal, petroleum, automobile or machinery manufacturing, that it dominates our entire industrial output is sheer nonsense. What about the recent threat to the operation of our entire economic machine by a failure in coal supplies? How would our modern economy operate at all without petroleum and petroleum products? Taken by themselves, each and every one of these major industries may be said to dominate our entire output in the sense that we cannot get along without any of them.

The decisions made in the coal, petroleum, transportation, or a host of other industries, all play their part in any "spiraling effect" or even a depressing effect upon the national economy. Does the increase in steel prices more profoundly influence the outlook and sentiment of businessmen (or, for that matter, all people) than the recent prolonged curtailment in the production of coal?

(2) The opening sentence under "Testimony high lights" is the statement:

> On December 16, 1949, the United States Steel Corp. increased its prices on domestic steel and lowered them on shipments abroad.

This statement leaves the implication at this point that reductions on foreign prices were made at the expense of domestic purchasers, or that some other impropriety is involved in these actions. Mr. Austin testified:

> today our export prices on the average are nearly $2 a ton higher than our domestic prices, and in no instance are export prices below our current domestic prices (p. 125, report of hearings).

(3) Also in the first paragraph on page 2 of the report under "Testimony high lights" is the statement—

> Steel prices * * * are 71.1 percent higher in January of 1950 (than they were in 1926) as compared with 51.6 percent for wholesale prices in general.

The question may be asked as to what these facts prove. The relationships express none of the basic factors which affect the prices of different commodities either on the cost side or on the demand-supply side. Why are the levels of 1926 a better basis than other years *if* account is not taken of the effects of various cost increases, changes in productivity, growth of the industry, and many other factors affecting differently the various industries which make up the general index, and which reflect the course of their prices over a span of 25 years?

For example, no mention is made of the fact that average hourly earnings in the iron and steel industry increased from $0.636 in 1926 to $1.647 in December of 1949, or 159 percent. Costs of many raw materials, supplies, and services have also greatly increased during this same period obviously affecting various industries differently, but on these facts the majority report is strangely silent.

(4) In paragraph 2 on page 2 of the majority report is a quotation of Mr. Benjamin F. Fairless, president of United States Steel, as follows:

> In my opinion, United States Steel has not made a fair return either on its sales or investment at any time during the last 20 years.

This typifies the kind of selectivity in quoting witnesses which occurs throughout the whole report. The sentence is taken out of context from pages 6 and 7 of the hearings. Immediately preceding the quoted statement of Mr. Fairless is his statement:

> When you are earning (after taxes) 5.2 percent on sales and 6.5 percent on investment, as we did in 1948 when operating at 94 percent of capacity, you cannot go very far in absorbing still greater cost increases.

The minority neither denies nor affirms the accuracy or validity of the statements made by Mr. Fairless in these pages; but we do not find evidence in the record where they are refuted.

Furthermore, while referring to the statement of Mr. Fairless about returns "during the last 20 years," the majority report says nothing about what these earnings were. This information, contained in the 1948 Annual Report of the United States Steel Corp., was introduced and received into the record as indicated on page 99 of the printed hearings. It shows that the total net income after taxes as a percentage of total sales for the 20-year period 1929–48 was 3 percent. For the same period, average net income after taxes was 3.59 percent of average net investment.

(5) On page 3 the majority report states:

The price increase was justified by the steel companies on the ground of probable increased outlays necessary to finance the pension agreements negotiated in settlement of the steel strike.

Can it be that the payments to be made under the pension agreements are "probable" increased outlays, or costs? Are they not as real as increases in the costs of materials, wage increases, or any other costs entering into the business?

The report further states:

operative experience is necessary to determine what the increases in cost may actually prove to be.

Is it not true that any important change in costs of materials, wages, pension costs, or other factors cannot be measured except in terms of actual operations and depends upon such factors as rate of operation and other matters which no system of accounting or forecasting can foresee? Does not prudence require that pension and insurance costs be estimated and considered in the calculations of any company as it projects its business and prices into the future, knowing full well that new costs (covering past employment as well as for the future) have been incurred and must be met? The report also states:

estimates of pension costs (do not) allow for the decrease in tax liability (38 percent at current rates of corporate income tax).

This assumes that having agreed to a pension plan with very definite commitments that ipso facto the burden of such pension plans would fall entirely on the net income of corporations which are taxable at 38 percent. Are not these costs in the same category as wage costs, material costs, and all other costs which must be taken into account before any net income for tax purposes may be arrived at? If net incomes are not earned in some years, do not pension costs still remain?

(6) On page 3 the report states:

steel executives expect consumers currently to pay out in prices, not only enough to defray actual capital consumption, but to meet expansion costs and to provide reserves through accelerated depreciation sufficient to replace present capacity at present prices.

The prices charged for any product in the long run (the price paid by consumers) certainly have to be sufficient to provide for all costs, whether of an operating nature or for the replacement of the capital that is employed. If the steel companies were public utilities, no allowance would be made for any capital expansion, but in a competitive system many companies provide for expansion from their earnings instead of declaring these earnings in dividends to their stockholders whose property they are. On page 3 it is implied that capital depreciation should be limited to the actual dollars invested in an enterprise. This is at least open to question. If the property owned by the stockholders increases in value because of the depreciation of dollars, there seems to be no more reason why the stockholders should not be entitled to that appreciation and a reasonable return thereon than owners of homes or other physical property, who certainly enjoy increases in dollar value brought about by a depreciation of currency.

Certainly the funds derived from depreciation should be applied to the maintenance and improvement of existing plants and facilities and if the company chooses to use its net profits for the same purpose, there can be no reasonable objection. Is the important thing merely to return the investment dollars (at whatever purchasing power level) or should these depreciation allowances be adequate to continue in existence a going concern? The report underscores the words "use of its sales revenues" in connection with replacement of existing production facilities within approximately 30 years. If these replacement costs are not to be derived out of sales revenue of any corporation, where else are they to come from? If stock and bonds have to be sold for all of such costs, the company will soon be grossly overcapitalized.

The colloquy between Mr. Homer and Bethlehem and Congressman Patman on page 3 of the report, in which Mr. Patman says, "The consumers of America subsidize Bethlehem," makes clear the misunderstanding evident throughout the report. Are not the prices of production in the long run intended to cover all direct costs and the replacement of plant together with a reasonable profit for the stockholders which they may draw down or use for the appropriate growth and maintenance of the industry and the improvement of efficiency? If not, the basis upon which all industry has expanded and improved has been improper.

The 1950 report of the Council of Economic Advisers correctly points out that—

> For now and the foreseeable future, the problem of encouraging an adequate level of business investment assumes greater importance than is indicated by the mere quantitative relationship of such investment to the total size of the economy. A timely checking of the current down trend in investment followed by a resumption of growth is by no means to be taken for granted. * * * It is easier for public programs to stimulate consumer spending than it is for these programs to enlarge business investment direct. Yet we know from the experience of the 1930's that, without a large and growing volume of business investment, maximum employment and production can hardly be achieved and can certainly not be maintained.

We also agree with the Council when it states:

> The main sources of funds for corporations will be retained earnings and depreciation reserves. * * * The larger and established corporations will not face any serious problem of equity capital. Reinvested earnings should be large enough, in conjunction with new stock issues no larger than those of recent years, to improve the ratio of equity capital to debt. * * * Corporate managers have recently preferred to borrow funds at prevailing low rates of interest rather than to "dilute the corporate equity capital" as they describe the issue of new stock at the price at which it would be absorbed by the existing market.

The President's Council of Economic Advisers are counting on capital investment through retained earnings and depreciation reserves to expand the investment sector of the economy. Under the circumstances described above, it is obvious that prices of goods sold must be sufficient to replace plant at existing prices or the full-employment program will be jeopardized.

(7) On page 9 in the discussion of profits the report states:

> moreover, on common stock that was printed in 1901 with little, if anything, in the nature of equity to back it, stockholders have received from 1902 through 1949 a total of $1,334,393,122 in cash dividends.

Just why a report relating to the current situation of profits, costs, and prices in the steel industry should be the occasion for the writers to reach back to the year 1902 is not clear, unless to create prejudice.

No other totals are shown, but the following are taken from 1948 Annual Report of United States Steel, for 1902 to 1948, inclusive:

Steel products shipped (total)	616.1 million tons.
Value of products and services sold (total)	43.7 billion dollars.
Employment costs (total)	18.0 billion dollars.
Income and other taxes (total)	2.8 billion dollars.
Common-stock dividends (total)	1.3 billion dollars.
Common-stock dividends per ton	2.05 dollars.
Taxes per ton	4.55 dollars.

These are a sample of various aggregate figures which might have been shown, and indicate how selected figures, standing by themselves as they do in the report, are apt to mislead the reader. The report goes on to state that—

Furthermore, as of December 30, 1948, the company had a profit and loss surplus amounting to 602 million dollars.

It might be asked in what form these millions existed—whether in dollars in a bank or in a strong box to be drawn upon at will—or tied up in physical assets, inventories, bills receivable, and other items that are a necessary element of a going concern. The report sheds no light of any kind on these figures nor in what way they should be interpreted in connection with the pension and insurance settlement and the subsequent price increases.

(8) On page 10 of the majority report it is stated—

that the net return, after taxes, on stockholders' investment in Jones & Laughlin Steel amounted to 13.1 percent in 1948 as compared with 9.8 percent in 1941, and 10.9 percent in 1929.

Two observations are raised in regard to these figures: (1) Did the stockholders receive as dividends the 13.1 percent referred to or did not a considerable portion of it remain within the corporation for capital and operating purposes; (2) if the stockholder did get a higher return on his investment in 1948, as compared with the earlier years, is this inappropriate considering increases in other forms of income and the diminished purchasing power of the dollar? The report also points out changes in income for eight companies between 1948 and 1949. Is it not true that the record would reveal that the two leading companies in this comparison, United States Steel and Bethlehem, probably had quite different relative changes in similar tabulations for other years? Is there not some valid explanation as to why the income of Crucible Steel and Wheeling Steel were cut approximately in two from 1948 to 1949? There is no evidence in the testimony concerning the reasons for these comparative changes. The majority report says nothing about what the influencing factors may have been—leaving the inference, perhaps, that the smaller companies suffered primarily because the larger companies prospered.

(9) In table III on page 11 are given selected financial data for United States Steel Corp. The report states:

Note that the net income per ton of shipments went up from $6.28 per ton in 1948 to $9.09 per ton in 1949.

Comment is not made in regard to the last two columns of this table, where it is shown that pay roll per ton of shipments rose from $29.21 in 1940 to $51.05 in 1949 as compared for the same years with a rise of $6.81 to $9.09 on net income per ton of shipments.

This table rather belies the implications here and elsewhere in the report that price increases should be criticized mainly in the area of profit changes.

(10) On page 11 the majority report states:

> So far as productive capacity is concerned the 3 big companies, United States Steel, Bethlehem, and Republic, accounted for 58 percent of the total capacity in 1938 and 56.3 percent in 1949. Of the total increase that took place between 1938 and 1949, the Big Three accounted for 46.6 percent, and the 10 next largest for 29.8 percent.

From this curious statement it is difficult to comprehend what the majority report hopes to demonstrate. Do the majority complain because the Big Three have not increased relatively as much as the remainder of the industry; or do they feel that these ratios of growth should be reversed, thus increasing the percentage of the Big Three? It would seem that the greater relative growth of the smaller companies shown in the table should be considered as a favorable development within the industry.

(11) Paragraph 3 on page 2 and corresponding paragraph 3 on page 12 relate to the estimates made by the various steel witnesses as to the amount of average increase in steel prices as a result of the price changes. In both sections, the implication is left that the estimates given were neither valid nor adequately supported. The report states:

> Neither the United States Steel Corporation nor the others who asked to be heard supplied at any time the information requested—

which statement is footnoted with a list of questions (appendix B of the report). A review of the record does not reveal that the various witnesses were confronted with the specific list of questions set forth in appendix B when they were on the witness stand, presumably to answer or attempt to answer these or any other questions that might be propounded by the committee.

It is indeed disappointing that such statements should be included in the majority report without confronting the individual witnesses with the series of questions listed. Since the matter of the extent and justification, if any, of price increase was a major purpose of the hearing, every unanswered question referred to in the report should have been propounded to the individual witnesses and, if they were unable to answer them at that time, they should have been specifically requested to supply the information desired.

(12) The statement—

> none of the corporations have given any indication of the methods used to arrive at their figures—

is a misstatement of fact. Mr. Austin, vice president of United States Steel, presented a prepared statement on the methods used in arriving at their estimated average price increase of $3.82 per ton. This statement was received for the record and Mr. Austin, although present, was not asked to testify in regard to any of the materials contained therein. How can such a statement in the report be made, when the witness designated to present the evidence and to clarify any points which might be raised by the committee was not asked even a single question, although his prepared statement was directed to the very point on which the majority's report levels its criticism?

The report further carries a footnote on page 12:

Even the statements promised and submitted since the close of the hearings are substantially impenetrable to analysis. Thus, for example, Mr. Moreell, president and chairman of Jones & Laughlin, writes as follows: "We [Jones & Laughlin] arrived at this figure (the average increase per ton of steel) by applying the actual increases—for both base price and extras—to the actual tonnages of our sales pattern which our order book reflected for the first quarter of 1950, and arrived at an average increase in the price per ton. This indicates as accurately as is possible the expected increase in revenue to this corporation resulting from the price increase."

The minority finds it difficult to understand what is impenetrable in the statement given by Admiral Moreell. Is not this a clear statement of method of arriving at a weighted average of the price increases which the companies were requested to develop? If the prepared statement filed with the committee was not adequate for its purpose, he or the company should have been requested to further amplify, explain, or detail any of the relevant matters. The disparaging statements, here as elsewhere, in the majority report concerning the failure of the companies to supply information are a confession of the failure of the committee to raise these same questions at the time the witnesses were before them.

Obviously, the real source of the information with regard to the over-all average of the price changes is the companies themselves. As far as the record shows, there is no evidence that any of the steel companies has failed or refused to comply with the requests of the committee in furnishing information during or subsequent to the hearing.

The report, however, seems to rely heavily on the statements of other individuals or groups, such as the National Association of Purchasing Agents, as reported in Time magazine, Mr. Alva W. Phelps, president of the Oliver Corp., a manufacturer of farm machinery; Mr. Otis Brubaker, of the United Steel Workers of America; and Iron Age magazine. These statements in each instance are presented as rebuttal to the figures submitted by the steel companies themselves and appear to be accepted by the majority at their face value.

While questioning the accuracy of steel companies' testimony on the average increase in steel-products prices, the majority report does not refer to the special index of steel-products prices compiled by the Bureau of Labor Statistics for the benefit of the committee and shown in the majority report as the first tabulation in appendix A. This index (1926=100) had a value of 163.9 for November 1949, the last full month before the steel price increase. The same index was 171.1 for January 1950, the first full month after the December price increase. The percentage increase in this index between these 2 months was 4.4 which coincides closely with the industry's statements that the average increase was about 4 percent. Perhaps the greater increase in the special index may be attributed to the fact that it is based upon domestic price alone and makes no allowance for the decrease in the export prices to which the steel witnesses testified.

In view of these facts, the minority is compelled to consider as unacceptable the methods used in the majority report to discredit the good faith of the steel industry witnesses in testifying on the average increase in steel prices.

(13) On page 13 of the majority report it is stated:

> Increases in the cost of manufacturing automobiles are estimated at $50 to $75.

These figures were not in the evidence of any witness that appeared before the committee and no estimates were presented by, or on behalf of, any of the automobile manufacturers. Only two references in regard to probable effect on automobile manufacturing cost were given at the hearings:

> (a) By David J. Austin, of the United States Steel Corp., as follows: "In the case of an automobile which sells, without accessories, for approximately $1,850, the increased cost to the automobile manufacturer of the steel used in its construction has been estimated at less than $11 * * * ." And (*b*) by Donald Montgomery, of the UAW–CIO, who stated: "We made an estimate of the price increase based upon the tonnage of steel bought by the automobile industry, and using Mr. Brubaker's estimates, which he himself said did not account for all increases of extras, came out with $6 a ton and quite evidently our estimate was too conservative if we are governed by what Iron Age ascertained from the automobile manufacturers."

These figures are far out of line from the statement of the report, if one assumes a total of 2 tons of steel per car, a fair allowance, including scrap. The price increase of steel to the automobile companies (based on the $50 to $75 increase stated in the report) would amount to from $25 to $37.50 per ton—a fantastic and absurd figure any way it is analyzed. Such statements of the majority report seem to indicate an eagerness to confuse the issues and to support by any means the conclusions sought by the majority.

(14) On page 17 the report states:

> In addition, United States Steel purchased Government-built plants that cost 345.4 million dollars (today's costs would be considerably higher) for only $120,000,000 or 34.8 percent on the dollar. Parenthetically, the fact should be added that one of these properties, that at Geneva, Utah, was a fully integrated plant with iron ore, limestone, blast furnaces, steel works, and rolling mills.

It is not known what the intended relevance of this statement is to the matter of inquiry into steel prices, unless perchance that United States Steel should not have been allowed to purchase those that they did. In connection with the purchase, attention is called to the reports of the Surplus Property Subcommittee of the Committee on Military Affairs, dated May 10 and May 24, 1946, in which full information in regard to the various terms and conditions of the sale of steel plants was outlined. The full text of the bids that were submitted by all bidders, including a statement of the review afforded by the appropriate committee of Congress, as well as by the Attorney General (section 20 of the Surplus Property Act), prior to the consummation of any of these sales, are set forth therein. The chairman of the Surplus Property Subcommittee was Senator Joseph C. O'Mahoney and there is no evidence in the letters of transmittal of the chairman of any objection to the proposed sale. In the report of May 10, over the signature of the chairman of that subcommittee, it is stated:

> It is gratifying to note that the majority of the bids appear to have given careful consideration to the factors discussed in the aforementioned reports. The wealth of economic data contained in the bids for the Geneva plant, * * * etc. more than justify their publication in full. Transcending this consideration, however, is the fact that the decision with respect to the disposal of the Geneva plant is of far-reaching importance, not only for the bidders and the people of the Western States, but for the structure of the national economy as a whole.

In the report of May 24 of this same subcommittee, entitled "War Plants Disposal: Acceptance of Bid of United States Steel Corp. for Geneva Plant Sale," is a complete statement of objectives, methods, and advantages sought in the sale of this plant and the basis for the recommendation to accept the bid of United States Steel Corp. There is no evidence of any objection to this sale, which, under section 20 of the Surplus Property Act, was subject to review in regard to antitrust violation by the Attorney General. The United States Steel bid was accepted as the best bid received for this property and considered in the best interest of the establishment of a western steel industry and for the economy as a whole in accordance with policies laid down in the Surplus Property Act for the disposal of war plants. It therefore seems rather inappropriate that reference should be made in this report to these transactions of four years ago in that they are not relevant to the purpose of this report. However, if reference is to be made, the members of this committee as well as the reading public should be aware of the published reports of a committee of Congress which was charged with responsibility of reviewing, in advance of disposal, the terms and conditions of sale, and their conformity with the public interest.

(15) On page 5 of the majority report reference is made to the discovery of a rich body of iron ore in Venezuela. The report then quotes a paragraph from an article written by the manager of publications for the American Institute of Mining and Metallurgical Engineers:

> It is probable that the rich Venezuelan ore discovery by the United States Steel Corp. will be available in almost any producing center at a better competitive price than units of iron from any other source. This great lode of ore which can practically be pushed onto railroad cars will be available to all who wish to buy. Further, this one body alone could supply the entire American steel industry all through the lifetime of children now being born. However, for reasons already mentioned—military, competitive, etc.—development of Cerro Bolivar will likely never rise beyond 15,000,000 tons annually, although its price laid down in American steel centers will be a yardstick exerting great influence on iron from other sources.

The report continues:

> Thus the American steel industry is becoming more and more a center of international economic management and control. Its decisions determine the growth and development of unique and precious resources in both hemispheres.

It is not clear why this matter is so developed and the conclusion thus drawn in terms of the purpose of the hearings to inquire into steel price increases. Furthermore, the report does not point out any of the matters relating to this development, as presented (on pp. 136–49 of the hearings) by Mr. John G. Munson, vice president, United States Steel Corp. in charge of raw materials. He pointed out the problems of a diminishing iron ore supply in the United States, and how these problems are being attacked by individual steel companies in different areas. These include large-scale expenditures for development of methods to make usable low-grade ores in this country, as well as intensive exploration in a number of countries throughout the world. These activities are considered necessary, to supplement our own diminishing reserves, which over the years have been greatly depleted, to supply our own and foreign requirements in peace, as well as in war.

Do the majority imply that the steel companies should not plan for their own future operations as well as the United States needs for steel?

If steel companies do not do this, on whom are we to rely for our future requirements? Are individual steel companies to be condemned as "becoming more and more a center of international economic management and control" for conducting intensive research and exploration, as well as making large expenditures to provide for American future steel requirements? Is such activity contrary to American policy of the past or the current Point IV program?

Inquiry at the State Department reveals that neither the Labrador nor the Venezuelan developments are contrary to the purposes of that program. In fact, it is indicated by the Department that funds for exploration, technical assistance, and other activities under the Point IV program are intended to result in resource development in various countries, based on private venture capital, to the end that economic progress and the standards of living may be improved. Furthermore, there is no evidence that the Venezuelan Government objects to the development of its iron ores by American companies. On the contrary, Mr. Munson testified:

> Our company, after formal approval of the Venezuelan Government, made an aerial survey and photographed 10,500 square miles of this territory.

This survey, and subsequent exploration and discovery, as well as plans for development and operation, are fully outlined in Mr. Munson's testimony, which the majority report in no way quotes, but nevertheless for its purposes broadly condemns.

(16) Page 12 of the majority report attacks the validity and adequacy of cost figures submitted by the companies. The report states:

> No data of any kind were submitted to substantiate what had happened to labor costs per ton of steel.

This information was testified to at considerable length by Mr. Voorhees, beginning at page 62, and contained tables and charts reflecting actual and anticipated costs for that company. Also see United States Steel exhibit 5, page 75, and exhibit 7, page 77. Reference is made to a "Summary of Cost and Price Changes During 1949," contained in his testimony.

Mr. Voorhees testified that added labor costs resulting from pensions, insurance, and social security would amount to $3.88 per ton, and that the net increase in freight charges and costs of materials would add another 29 cents to that figure. The majority ignores completely the $3.88 figure, *which is not quoted in a single instance in their report* but states that the estimated rise in the cost of purchased materials amounted to 29 cents per ton, *"an amount somewhat small to warrant a major price boost."* This is a glaring example of refusing to accept or use data presented by the witnesses and of drawing false conclusions and inferences not justified by the record.

Obviously, no attempt was made by United States Steel Corp. to justify its price increases on the 29-cent increase on products and services bought, but, rather, their figure of a total increased cost per ton of $4.17.

On page 14 the majority report states:

> It is interesting to note that Republic Steel Corp. reported a $3.65 per ton material and freight cost increase. The only possible explanation, in the absence of supporting data, is that Republic computed only increases, neglecting to offset them by decreases in material costs of scrap and fuel oil.

In the light of the record of the hearings, page 238, giving Mr. White's statement in full, this "explanation" in the majority report is misleading and contrary to fact. Following the table showing that material and freight costs had gone up $3.65 appears this statement:

> Despite the fact that the prices of scrap and fuel oil—accounting for only about 25 percent of our total materials and freight expenses—have declined, the balance of the major materials we use materially increased, thus not only offsetting such decline, but actually resulting in the per ton cost ($3.65) increase set forth above.

Other witnesses also testified in regard to their cost increases and these appear to be completely ignored in the majority report (see Moreell's testimony, p. 187 and following). In fact, nowhere is there any summary whatever in the majority report of connected and related facts presented by the steel companies in explanation of their cost increases. Furthermore, since this was one of the prime purposes of the hearing, the minority feels that all relevant and pertinent facts and data should have been elicited from the witnesses at the time of the hearings and if then found inadequate, the committee should have required that such adequate data and information be supplied. The presentation of the steel companies' cost increases has been, generally speaking, completely suppressed in the report, and the only evidence "summarized" consists of fragmentary excerpts taken out of context, to "prove" the position taken by the chairman in advance of the hearings. Such misrepresentation of the facts and one-sided conclusions and inferences can hardly have been accidental on the part of the writers of the majority report.

(17) In paragraph 5, page 3, and corresponding paragraph, page 14, the report criticizes the evidence submitted in connection with the estimates of pension costs by the various companies. The report states:

> The steel companies sought to justify the price increase on the ground of probable increased outlays necessary to finance the pension agreements negotiated in settlement of the steel strike.

Can it be that the payments to be made under the contract agreement are only "probable" increased outlays or costs? Are they not as real, whatever the figures happen to be, as increases in the costs of materials, wage increases, or any other costs entering into a business? The majority report states that Mr. George Buck, an outstanding private actuarial consultant, testified that additional pension costs to the United States Steel Corporation would be about $54,500,000,

> * * * but did not indicate in full either the nature of the computations or the assumptions by which his staff arrived at this result.

This is an astounding statement. The details of the pensions and their cost and manner of financing were fully set forth in a proxy statement to United States Steel stockholders which was submitted and accepted in the record. Mr. Buck submitted a completely detailed analysis of the various methods and plans by which the pension program could be financed. He also outlined in detail the plan chosen by United States Steel and elaborated at great length both in his prepared statement and under cross examination by members of the committee. A review of the record shows that Mr. Buck responded to every question that was asked by members of the committee, and that there were no unanswered questions during the whole of his interrogation. Furthermore, there is no evidence from the record that Mr. Buck was to supply any other information or data in regard to the nature, operation, methods of computation, or costs of the pension plan.

Also, in Mr. White's (Republic Steel Corp.) presentation, he stated that—

> An independent actuary has estimated that the average annual cost of the pension plan which we are asking our stockholders to approve before March 1 is over $9,000,000 for each of the next 5 years * * *. To this cost must be added the increased cost of the insurance program amounting to over 2½ million dollars annually.

(18) On page 3 of the majority report is the statement:

> Steel executives expect consumers currently to pay out in prices, not only enough to defray actual capital consumption, but to meet expansion costs and to provide reserves through accelerated depreciation sufficient to replace present capacity at present prices.

This position of the majority rests upon the data set forth on page 17, where the report says:

> Despite repeated questioning [Mr. Voorhees] did not make the relative amounts [spent] for expansion as compared with modernization and replacement available.

This, incidentally, is a complete denial of plain evidence in the record. When asked this question, Mr. Voorhees stated that Mr. Reed would present the details in that respect, and the full details are found in table III (p. 132) of Mr. Reed's testimony, according to which, *only 3.4 percent represented expansion of capacity.* The majority report then makes the discovery that all of the expansion in investment by United States Steel, except for $71,000,000 "was financed by consumers." The record shows that the management of United States Steel, rather than pay all of its current profits out as dividends, used most of it to modernize its facilities in order to maintain its efficiency and, hence, its competitive position.

The majority then refers to this as—

> Costless capital collected from customers upon which "adequate returns" will be expected in the price which customers will be charged from now on.

The stockholders who saw those earnings used to replace worn-out plant equipment at current prices would hardly regard it as "costless" since once those dollars are invested in brick, mortar, and machinery, they can never hope to see them in dividends.

The majority then proceeds to criticize the policies used by some of the steel managements in increasing their current depreciation charges to make up for the fact that their depreciation charges in the past have not yet yielded them sufficient funds with which to replace those assets in the current market. The majority states that—

> The accounting profession, supported by the Securities and Exchange Commission, regards as unsound accounting, the practice of including for depreciation amounts based on estimates of present or future replacement costs instead of original costs.

To justify this position, the majority quotes Accounting Research Bulletin No. 33 of the American Institute of Accountants. But that bulletin does not support the position taken by the majority. It states:

> An attempt to recognize current prices in providing depreciation, to be consistent, would require the serious step of formally recording appraised current values for all properties and continuous and consistent depreciation charges based on the new values.

This indicates the proper procedure by which the higher depreciation charges should be established, but does not condemn the higher charges themselves in any respect.

The Securities and Exchange Commission has not condemned making higher depreciation charges currently. It requires that the basis of such additional charges be accurately set forth in conformity with good accounting practice. Furthermore, contrary to the implied condemnation of the practice of three steel companies in charging accelerated depreciation in recent years (p. 17 of majority report) their financial statements have been accepted by the Securities and Exchange Commission in this form. As for the quotation of the majority from the Federal Trade Commission on this point, it too is qualified. It simply says that—

> Accelerated depreciation * * * is contrary to sound accounting practice if it includes a factor of amortization which is not susceptible of objective measurement.

This is simply to say that arbitrary accounting is not sound accounting, with which all will agree.

The testimony of all of the steel executives was to the effect that regardless of the depreciation charges they had made against income in the past, the accumulation of these charges has not provided enough dollars at present prices to replace their capital facilities; accordingly, they were having to deduct much larger amounts from their present incomes after operating expenses, to make these capital replacements. *These additional charges thus represent, not as the majority charge that the managements are making unwarranted charges on customers, but a reduction in funds available for higher dividends to the stockholders.* It should be obvious to all, including the majority, that unless profit margins in *present dollars* are large enough to meet higher capital replacement costs, the steel companies will deteriorate and progress will be impeded.

The minority feel that a fair summary of the testimony of the steel company managements in the record on this point would be that the steel executives argued that in justice to their stockholders, whose investments they are pledged to protest, they hope and must try to get prices for their products high enough to replace their plant and equipment at present prices, and to obtain enough more than that to enable them to pay dividends that will attract and justify further investment in the industry.

It should be noted that none of the steel companies is guaranteed by the Government prices assuring them any return whatever on their capital, as utilities are. Hence, the majority's statement that it is a—

> general principle that it is only the consumption of the plant and equipment used up that must be recovered from revenues as a depreciation expense—

a principle applicable to public utilities for rate-making purposes, has no application to this situation. The reports of net return on capital of the steel industry cited by the witnesses all show an average rate of return, no matter how evaluated, much lower than the standard of "fair return" commonly accepted for public utility rate-making purposes. The data prepared by the Federal Trade Commission as set forth on page 18 of the committee print entitled "Basic Data Relating to Steel Prices"—which, incidentally, make allowance for depreciation at original, not replacement, cost—show that the leading steel companies have had a return on total investment greater than 6 percent in only 7 out of the past 20 years. The majority fail to point out that so lon~ as the steel companies are not assured prices by Government high enough to guarantee them any minimum return, there is no fair basis, in the absence of conspiracy or restraint of trade, to argue that their maximum return should be fixed.

Furthermore, this position of the majority on depreciation is inconsistent with the position taken by Secretary of Commerce Sawyer in his report of December 23, 1949, to Mr. J. R. Steelman, assistant to the President, in which he states:

> The difficulty in obtaining risk capital for the financing of business expansion was repeatedly brought to my attention. Many business firms unable to finance themselves by issues of stock have been forced to use their own accumulated earnings for investment in plant and equipment and for working capital. This is especially true of small enterprises. To remedy the situation and make business investment more attractive three specific measures were most frequently recommended: * * *. (2) a liberalization of depreciation allowances, thus encouraging the purchase of new equipment which would not only reduce costs, but would stimulate other industries. * * *

Also, the preponderance of testimony before the Subcommittee on Investment urges an early systematic review of present tax laws and that added flexibility be permitted in the rate at which businesses are allowed to write off physical assets for income-tax purposes.

In justifying demands for higher wages, it is traditional for the unions to adjust wage rates and earnings for changes in the cost of living in order to obtain the rate of real wages. The minority accepts the validity of the principle of such adjustments, as we believe the majority does. The minority would apply this same principle to the adjustment of dollar figures of business income and expenses. Evidently, the majority want a flexible yardstick for employees, but a fixed yardstick for business enterprise.

(19) On page 4 the majority report says:

> Other corporations, instead of raising or lowering their own prices independently, display a marked disinclinination to compete pricewise.

In attempted support of this purported highlight of the testimony, the majority report then cites testimony of Jones & Laughlin witnesses to the effect that if it had not been for the competition of United States Steel, steel prices to consumers would be higher than they now are. It is amusing that the majority should cite testimony on the *presence of competition as the proof of its absence*, and that it should simultaneously demonstrate that it is the largest, rather than the smaller, producer who is responsible for consumers having lower rather than higher prices.

The testimony scarcely supports the majority contention that—

> The course of prices in the steel industry is largely determined by the judgment of executives of the United States Steel Corp.

A fairer summary of the evidence, it seems, would note that many cost and demand factors were cited as influencing the course of steel prices, including the independent judgment of different executives of the various steel companies. Thus, Admiral Moreell testified (p. 186) that his company, when demand conditions permitted, raised its prices above those of other producers:

In the summer of 1948 we raised prices on certain selected items on which our profit was very low. These increases placed our prices on those items above those charged in the industry generally. We held those increases until the spring of 1949, when the demand for steel fell, and in order to sell these items under competitive conditions we had to cancel all of these increases. This resulted in a reduction of our prices an average of $2 per ton. I mention this instance to point out that we are not free agents in setting our prices. We cannot set them by merely adding our costs to the profits we wish to earn. I wish it were so simple. Our prices are set by an interplay of many factors, but the chief of these is the force of competition.

Mr. Weir, of National Steel Co., also testified on independent price changes (p. 233) as follows:

We made a long study of new cards of extras, which put these products on a profitable basis. These new extras were applied as of October 1, 1948. In other words, we put that out ourselves. A few of the other companies followed.

We kept it in effect for about 6 months and then business changed, and the majority of the companies had not followed and in order to meet competition, we had to take it out. But I mean we did put this price into effect on our own and some of the other companies did the same. I am frank to say, gentlemen, that the steel corporation does not have the controlling effect on the steel industry that it is generally given credit for. We raise our prices. They raise their prices, and in our opinion that is justified.

The wide range of factors influencing steel prices was further illustrated by Mr. Weir's testimony (p. 215) as follows:

One very important fact is that the change in prices last month was not a sweeping, across-the-board increase. On the contrary, it was a product-by-product revision, which increased some prices, left others unchanged, and reduced still others.

Tin plate, a highly important product with National Steel Corp., was one of the products on which prices were reduced. It might be well to explain that tin-plate prices are established for a year in advance. This is due to the fact that the canning industry has to pack their products for a year, due to the seasonal nature of crops, and the cost of containers must be a known quantity. For this reason, they require a firm price from the can makers who, in turn, require a firm price on tin plate from steel companies. The reduction in the price of tin plate was made to give our customers the benefit of a reduction in the price of pig tin, and it will amount to an average of almost $4 per ton. That is on tin plate. In establishing this lower price, we are taking quite a gamble that the price of pig tin will not rise materially over the next 12 months. Tin has always been a very speculative commodity, because the price is controlled abroad.

The majority asserted, "The small companies live dangerously in the hands of Big Steel." This may or may not be true, but we do not believe that the evidence established it with any such dogmatic conclusiveness as the majority pretends. Thus Mr. Weir, of National Steel, testified (p. 224–225) as follows:

Mr. Rich. But from the standpoint of the amount of investment that you have in your company, the number of stockholders, and the number of employees, and with the Government taking 38 percent of your profits now and not permitting you to depreciate your property enough to keep it as you figure it ought to be kept, are you liable to have pretty stiff competition in the steel industry from now on?

Mr. Weir. Absolutely; sure. If nothing happened at all, Mr. Rich, to change the competition, there is the competitive situation in steel, if nothing happened at all. Something may happen that will change it, which I would like to comment on.

I think yesterday there was some discussion here when the Steel Corp. presented their case as to the percentage of the steel industry which they controlled. I mean they had 32.4 percent of the production, and there seemed to be some thought—32.4—that meant that the balance of the industry had about 68 percent, twice as much as the Steel Corp. had—there seemed to be some thought that the Steel Corp. only allowed the balance of the industry to live through sufferance.

* * * * * * *

Mr. RICH. Does the United States Steel Corp. have anything to do with your corporation?

Mr. WEIR. Not the slightest.

Mr. RICH. Do you let them run your business?

Mr. WEIR. I was going to say something, but I won't. No; they don't. It has really been a successful business so far.

* * * * * * *

As I say, we have grown from a very small company, starting in 1905 with about 250 employees, to a company now that is fifth in the industry, employing almost 30,000 people, and we have done that in competition with the Steel Corp.

We can continue to compete with the Steel Corp. unless the Government in some way interferes with us. For instance, if it prevents us from being able to meet competition and sell our products all over the United States as has been our custom from the beginning.

The majority seems to complain that steel prices do not—

fluctuate in exactly the same way that the waves of the North Sea tend to vary around normal sea level.

We are not convinced that they ever have or that the testimony proves that they should. Do freight rates? Do wage rates? Do taxes? Do any costs of Government?

(20) We find further evidence of bias or, at least, carelessness on pages 4 and 20 of the majority report, dealing with the profits of small or nonintegrated companies. The majority report asserts:

The small steel companies did not fare profitwise as well in 1949 as did the two largest.

To attempt to prove this the majority does not cite the testimony actually heard, but instead chooses to quote the comment of a trade journal. In the majority's table II are listed the profits for 1948 and 1949 of the larger companies, no data being shown for small companies or nonintegrated companies. More significantly, the majority fails to examine the profit record for the years prior to 1948 and 1949 to ascertain whether the comparative change in profits of 1948 to 1949 was a continuation or correction of changes in prior years. Such 2-year analysis is scarcely sufficient to support the majority's conclusions.

The majority asserts:

Testimony indicated that independent fabricators and nonintegrated producers did not enjoy as large a price increase in the steel products they sold as in those they purchased.

We are compelled to regard this statement as a biased summary of the testimony. In the first place, testimony was heard from only one nonintegrated producer—Allegheny Ludlum Steel. Secondly, to make the allegation appear plausible, the majority has not cited testimony of this hearing but has instead referred to testimony of the same witness rendered 2 years ago. What the witness (Mr. Batcheller) had to say on this matter (p. 180) at this hearing is as follows:

The CHAIRMAN. Is United States Steel now a competitor of yours in producing stainless steel? * * *

Mr. BATCHELLER. That is an embarrassing question, Senator; yes.

The CHAIRMAN. I do not want to embarrass you, but I remember the hearings of December 1948 when the record showed that United States Steel was increasing its price upon semifinished steel, which is the product which you must buy from United States Steel.

Mr. BATCHELLER. That is right.

The CHAIRMAN. So that seemed to me as though the Big Steel increase was putting the little fellow in a sort of squeeze.

Mr. BATCHELLER. Well, they always put us in a squeeze. They are tough competition, and also the little fellows. I think the competition in this industry of ours is much more acute than most people realize. * * *

The chairman failed to obtain the affirmative answer he apparently expected. The actual testimony scarcely supports the majority's purported summary of it.

The majority report condemns the effort of the lowest-cost producers to recover their increased costs through higher prices on the ground that they could have absorbed the cost increases currently and still have made some profit (after allowing depreciation or original cost only). It does not state what would have happened to the highest-cost producers under these circumstances. Obviously, if prices had not risen to cover their costs, they would be forced to suspend operations. One unfortunate result of this would have been to further increase the concentration in the industry. Then the larger, lower-cost concerns would face the charge of attempting to monopolize the industry.

On this same matter of the "squeeze" between semifinished and finished products, Mr. Marshall of Granite City Steel Co. testified (p. 461) as follows:

You may ask where our profits for the past 3 years have come from if not from basic steel products. Our answer is that we have not been making the money we should on our regular bsuiness, which is the production of steel ingots and the rolling and processing of these ingots into such finished products as sheets, tinplate roofing. In the past 3 years, we have entered into conversion contracts for part of our production. Under these contracts, which expire in the middle of 1950, we produce finished steel from raw materials supplied by other companies. The profitability of these contracts lies in the fact that raw materials are removed as a factor from the selling price, which is another indication that steel prices are not adequate to properly cover current costs—and these costs do not include pensions and insurance.

On page 21 is found this curious observation: "Obviously the cost of stainless steel, in which labor plays a much greater part than in the production of major tonnage items, must have increased as much as the costs of the other steel products where prices were increased substantially." It would appear that the relatively high price of stainless steel is much more attributable to the costly chromium and nickel contained in it than to the cost of labor. An explanation of the failure to increase stainless steel prices was provided by Mr. Batcheller on page 156 of the record. In reply to a question as to whether increase in prices might have resulted in a substitution by stainless steel users of some other product, Mr. Batcheller stated:

In my company we feel, Sir, that we are still only building a foundation of a business, and we are trying to do that on sound lines; we feel that the great market for our product, for new metals still lies ahead of us.

This testimony indicates consideration of demand conditions in establishing prices as also does the fact of reduction in foreign prices at the same time that domestic prices were increased. It is in sharp conflict with the majority contention that steel company witnesses did not consider demand in making price changes.

On page 21 is the statement:

Despite arduous efforts the committee was unable to induce fabricators to testify openly concerning the various price changes which squeeze their margins. They did not dare risk jeopardizing the purchasing arrangements and supplies of the semifinished steel they consumed.

The minority is unaware as to which fabricators the committee failed to induce to testify. Would they have been unwilling to testify at executive sessions of the committee? The majority, nevertheless, makes the charges of "price squeezes" although it admits it had no evidence presented to it by any witnesses.

(21) The majority report asserts on page 23 that—

> the recent increase in steel prices was not only untimely but unwarranted and may set off a substantial downturn in business activity late this year.

This statement is to be regarded more as a contention of the majority than a summary of the evidence.

The majority report does not quote the direct testimony of any witnesses in support of its contention. Instead it quotes an unidentified writer in the Journal of Commerce to the effect that in the opinion of that writer the steel industry is traditionally a slow and late mover on prices. The tenor of the quotation does not in fact even support the majority's conjectural contention that the increase in steel price may "set off a substantial downturn." Instead the quoted statement is directed to pointing out the ineptness of the steel industry in the timing of its price changes. Indeed, if this quotation can be considered as evidence, it indicates that if the rise in steel prices was unwarranted it will soon be competitively corrected. In this respect the quotation does not differ from the testimony of Mr. Voorhees who said (p. 70):

> Should this proper referring of the matter (price increase) to the democratic judgment of the competitive market place prove to have been the wrong course of action for us to have undertaken, I think that we can all be very sure that it will very soon be self-evident and self-curing.

The majority further quotes from the Economic Report of the President a passage generalizing on the consequences of price changes. Since the Economic Report of the President was released before the hearing began and since the committee did not hear testimony from the Council of Economic Advisers, we cannot accept this quotation as a proper judgment of the justification or nonjustification of the steel-price increase on the actual evidence.

On page 6 the majority also describes the growth of the steel industry, asserting that its decisions more intimately affect the economy than they did many years ago. The report says:

> Such intensive growth has multiplied the economic repercussions of the decisions of business executives in the steel industry.

On page 928 of the Statistical Abstract of the United States for 1949, there appear the indexes of production, compiled by the Federal Reserve Board. In the last boom year before the depression, 1929, the index of total industrial production is given as 110. In 1948 the index is given as 192, or 75 percent increase. The corresponding indexes for iron and steel manufacture are 133 and 208, or an increase of 56 percent. The facts seem to be that at least over the last 20 years the role of steel production in the Nation's total industrial production has been a declining one, not a multiplying one.

The majority further states:

> Yet on the date of this simultaneous price change, December 16, 1949, the probable increases in costs due to pensions were neither known nor had they yet been figured.

We regard this as a remarkable statement. The cost of pensions was calculated and fully discussed before the Presidential Steel Board last summer. We find nothing in the testimony to justify this statement of the majority and we deem it wholly unwarranted.

In this connection the majority asserts:

> thus, against the trend, a price movement was initiated which raised the steel prices to the highest level relative to all other prices reached at any time in the last decade.

This statement must be deemed incorrect in terms of the majority's own table No. 1 on page 9 of the majority report. In that table, 1940 index of steel mill products, was 126.6 of the corresponding index of all commodities. In January 1950, the corresponding percentage was down, not up, to 113.1. Relative to all other prices steel prices are thus not higher in January 1950, than they have been in the past 10 years, but they were substantially lower than they were in 1940. What surprises us is that in commenting on this latter testimony, the majority report describes the comparison of price changes since 1940 (on p. 7) as—

> the dubious technique of manipulating the authoritative (1926=100) figure of the Bureau of Labor Statistics * * *.

Apparently examination of price changes over a 10-year period is either a "dubious technique" or informative evidence, according to who does it.

In the preceding pages the minority has cited numerous instances of bias in the selection of materials used by the majority in the presentation of its report, as well as the slanted character of the analysis, inferences, and conclusions that have been made. We have also stated our reasons for disagreeing with these statements and findings in the report. Many other examples of similar character also could be pointed out. For these reasons we find the majority report unacceptable, and therefore have submitted this dissenting minority report.

ROBERT A. TAFT.
RALPH E. FLANDERS.
ARTHUR V. WATKINS.
JESSE P. WOLCOTT.
ROBERT F. RICH
CHRISTIAN A. HERTER.

INDIVIDUAL COMMENT BY SENATOR RALPH E. FLANDERS

Besides agreeing with the minority report on this document I feel moved to add certain individual comments.

There are certain points which are fundamental to the questions raised in the report. At no time are they clearly stated. To the extent that they are recognized at all and a position is indicated in the report, no reasons whatever are given for the positions taken.

As an example, there is to be found under item 6 on page 3 and following, the words:

> Contrary to the general principle that it is only the consumption of plant and equipment used up that must be recovered from revenues as a depreciation expense.

This idea is further expanded on page 17. The implication is clearly made that the companies should not lay aside reserves for the replacement of productive capacity at replacement costs. On page 17 it refers to Bulletin 33 of the American Institute of Accountants which recommends "adhering to the generally accepted concept of depreciation on cost."

There is a division of opinion among accountants as to the method of depreciating at a time when costs are increasing. Mr. Bailey testified before the profits hearings in December 1948 that he accepted the principle upheld by the American Institute of Accountants but on page 49 of the profits report he said:

> In my experience as an accountant I have seen the cash reserves of many companies eliminated and borrowings required because the necessary replacements of plant had to be made at current high prices and that has happened many, many times in the last 2 or 3 years.

Remember that this statement came from an accountant who adheres to the conventional rule so far as bookkeeping is concerned, but he knows and every businessman knows that there are times (and one of those times is now) when it may be necessary to build up reserves greater than those allowed by the Treasury Department. The report takes a dangerous position which it would be unable to justify or support if this question had had as full discussion in the steel hearings as it had in the profits hearings.

Table II on page 10 raises serious questions which apparently the authors of the report were completely blind to. Over and over again reference is made to the United States Steel and Bethlehem as being in a splendid profit position. The table shows that United States Steel's profits rose 28 percent in 1949 over 1948 and Bethlehem Steel increased 9.9 percent; but all the rest of the steel companies listed had decreased profits in 1949 as compared with 1948. This raises very serious questions. The question is: Should a prosperous company doing a large part of the business in a given industry reduce its prices if the smaller independent companies would be seriously handicapped thereby? Can a big company afford as a matter of public relations or even as a matter of social justice to put the smaller competitors out of business? Is it to be criticized if it does not put them out of business? On the positive side, is the efficient industry entitled to the profits of its efficiency provided there has been no element of unfair competition as a source of its profits? These questions lie at the heart of the investigation which the committee was making, yet the authors of the report appear to be quite unaware of their existence.

Page 16, paragraph 6 states the fact that not only replacement but expansion has been paid for out of profits derived from the price paid by steel consumers. The implication is that there is something wrong in this. If so there has been something wrong in the way in which American industry has grown great and the standard of living of the country raised. It may be that we should now shift to a new procedure wherein expansion is forbidden, or at least frowned upon as immoral, unless it is obtained by new security issues. If that is the opinion of the authors of the report, the idea should have been stated, developed, explained, and supported.

I concur with the minority report of course in rejecting the proposals which look toward treating the steel industry as a public utility.

I could go on much further but I refrain. There is much information in the report. There is some justifiable criticism. I believe that the steel companies, particularly its leaders, have deplorable public relations and that many of their decisions are shortsighted. Yet the person of discrimination who reads this report will come out sympathizing with the steel industry. At least that was its effect on me.

I am sorry that the joint committee is putting out reports of this caliber and I find myself astonished that some of my respected associates on the committee have read it so carelessly that they are willing to sign it.

RALPH E. FLANDERS.

ADDITIONAL STATEMENT OF SENATOR ARTHUR V. WATKINS

Even though I heartily endorse the minority report which comments briefly on the reference in the majority report to the purchase of the Geneva, Utah, steel plant by the United States Steel Corp., I feel impelled to make additional comments on that situation as well as on some other aspects of the majority report.

I am at a loss to understand why the purchase of the Geneva steel plant was brought into the discussion at all. There seems to have been no reference to it in the testimony before the committee. If the majority had in mind that it emphasizes the bigness of the United States Steel Corp., and its alleged influence in determining for the industry future price of steel productions, I think they have spoken without evidence to support the claim.

The price paid for Geneva steel plant was $47,500,000. United States Steel Corp. also pledged that it would, in the event of the acceptance of its bid, use $18,600,000 additional of its own funds for the peacetime conversion of the plant.

It is a matter of record that the corporation has kept its part of the agreement. In fact, it has gone far beyond the sum pledged for the conversion of the plant facilities.

Under the Surplus Property Act, the Surplus Board was set up to recommend to Congress a policy for the disposal of the property owned by the Government that was declared surplus and that the Government would want to sell.

In the fall of 1945, Mr. Fairless, president of the United States Steel Corp., addressed a letter to the Defense Plant Corporation that had supervised the building of the Geneva steel plant, saying that the Steel Corp. was ready to discuss the purchase or lease of the Geneva steel plant when it was no longer needed for war production.

Some members of the War Surplus Board expressed opposition to the disposal of the Geneva plant to the United States Steel Corp.

In August 1945 the Steel Corp. wrote to the Defense Plant Corporation:

> After full consideration of the whole situation, including the various problems which seem to be involved in the attempt to establish Geneva mill after the war as a sound and successful commercial enterprise, the directors of the United States Steel Corp. have decided that no further action to acquire the Geneva plant be taken.

This action of the United States Steel Corp. brought deep disappointment to the people of the Intermountain and Pacific Coast States. There began then in this section a concerted movement which in fact took on the proportions of a crusade to get the United State Steel Corp. to reconsider and offer a bid for Geneva. Chambers of commerce, trade associations, labor organizations, civic groups, church leaders, and the press in general made strong pleas to the Steel Corp. to reconsider its refusal to bid on Geneva.

It was reported at the time that even the President of the United States interceded with the Steel Corp. Numerous United States officials added their urging to the voices of the West. In Utah the movement was led by the Governor and all members of the Utah congressional delegation (all Democrats) and substantially all civic organizations of the State joined in. In fact, the western feeling was almost universal that only a strong company, with ample resources and the know-how, could take over and successfully operate a plant as huge as Geneva.

It should be remembered also that the economists of the country had predicted that immediately following the end of hostilities in World War II, there would be a great deal of unemployment and that in general business would have a slump. There was also considerable speculation on the ability of the West to absorb the output of a plant as large as Geneva. In fact, a number of experts had predicted that the plant could not operate successfully because of its distance from heavy consumers of steel. In other words, whether or not Geneva could be a success being so far away from markets was considered highly speculative.

In view of this over-all situation, the statement in the majority report that the United States Steel Corp. was "allowed" to purchase certain Government plants is anything but expressive of the real situation. It goes far beyond being merely amusing to the people of Utah and the West generally.

The fact is that the United States Steel Corp. was really "dragged" into the bidding. When the bids were open, it was the only bidder who made a firm offer of its own money; it was, in every respect, far and away the best bid.

About this time the Surplus Property Administrator made the following statement (this was before a joint committee of the two Houses of Congress):

> The Surplus Property Administration feels that the best company to purchase this plant will be the United States Steel Corp. We believe that they may be the only company in the steel industry that can carry on this operation unless the Government subsidizes.

And then later the War Assets Administration, which was given the responsibility of disposal of surplus war property, made this comment in accepting the bid:

> It will foster the development in the West of new independent enterprise. The operation of the Geneva steel plant as a part of the integrated operations of the United States Steel Corp. should tend to foster the development of the steel-consuming manufacturing plants in the Western States.

And, in addition, the Attorney General of the United States, who was required by the Surplus Property Disposal Act to investigate any possibility of a monopoly being created by the disposal of surplus war plants, added his approval to the sale of Geneva to the United States Steel Corp.

It should be added that at the time, the United States Steel Corp. announced that it would make Geneva a basing point for the purpose of pricing steel. What happened as a result of this pledge and of the taking over of the mammoth plant is a matter of history that should be well known to the committee and certainly to the chairman who represents the State of Wyoming.

But our memories are short, so I think it is well worth repeating, even though I follow the majority precedent and go outside the hearing record for the facts.

Here's what happened to steel prices in the West:

Prices for steel plates and structural shapes (the only kind of steel produced at that time at Geneva) were set in May 1948 at the same level as at Chicago, Pittsburgh, and Birmingham where the country's lowest prices for steel prevail.

This action resulted in a reduction in the delivered price of steel plates which amounted, for example, at Salt Lake City, Utah, of $19.16 per net ton, and to $18.54 per ton at Ogden, Utah; $14.02 at Pocatello, Idaho; $12.36 at Boise, Idaho; $12:36 at Reno, Nev.; $7.50 at Eugene, Oreg.; $10.30 at Spokane, Wash.; $6.64 at Sacramento; $3.64 at Los Angeles, and $3.44 at San Francisco, Calif., points.

Reduction in structural steel followed the same pattern.

The effect was to reduce the price of steel in Salt Lake City from the highest price in the country to the lowest price quoted anywhere in the United States. (See table from Iron Age, below.) Other sections of the West got corresponding proportional benefits.

Another important factor was the revised schedule of freight rates which became effective on April 1, 1947. It provided an additional source of direct benefits to the consumer of steel products in the West. These reductions vary from a situation of no change in the central Utah area to a maximum saving of $4.54 in the coastal cities of California.

This reduction, solicited and supported by the United States Steel Corp., was supported by most of the civic and industrial organizations in the West.

The result is that the entire West has benefited and will continue to benefit by reason of the purchase of the Geneva steel plant by the United States Steel Corp. For the first time in its history, the Intermountain and Pacific Coast States were placed on a competitive basis with the rest of the United States.

The majority will have some difficulty in convincing the Bethlehem Steel Co. and the Kaiser management at the Fontana plant near Los Angeles, and other western companies and steel consumers, that there isn't any genuine, active competition in the steel business in the western part of the United States.

It should be kept in mind also that it was not necessary for the United States Steel Corp. to make these reductions and solicit lower freight rates. Westerners are convinced that, had any of the smaller companies purchased the Geneva plant, the public would have been charged all the traffic would bear. And as a matter of principle under our system of free competitive enterprise they would have been entitled to do just that.

That any of these companies would probably have so acted is established by the fact that during the current sellers' market at least one of the independent companies is reliably reported to have charged an average of $15 per ton over and above the price set by the United States Steel in the western area based on Geneva.

The proof of whether or not there is genuine competition rests largely on what happens in the market place. Judged by that criterion, the implications and the assumptions of the majority that there is no effective competition in the steel industry fall flat so far as the West in concerned.

This committee as a matter of law is interested in recommending and fostering such programs—

as will bring about and maintain conditions under which there will be afforded useful employment opportunities including employment for those able, willing, and seeking to work and to promote maximum employment, production, and purchasing power.

The sale of Geneva plant to the United States Steel Corp. and the resulting competition growing out of that sale is making it possible for the establishment of numerous fabricating enterprises in the Western States; enterprises which would have been impossible without a large supply of steel at prices competitive with other sections of the United States.

Out of these industries should come employment for hundreds of thousands of American citizens and an increased production of necessary commodities. Increase in purchasing power flows from such production and employment.

Let me say in conclusion on this part of my comments that only a strong company with large assets could purchase and maintain and operate a steel plant large enough to furnish the basis for the increased employment and prosperity of the West. Instead of acting along the conventional lines of a monopoly which charges all the traffic will bear, all the evidence is to the effect that the United States Steel Corp. in its western operations based on Geneva has adopted a contrary course. It is almost unbelievable, but I submit that it is true.

Comparative prices

Plant	Pig iron	Forging billets	Plates, carbon steel	Plates, high strength, low-alloy	Structural shapes	Low-alloy structural shapes, high strength
Pittsburgh	$46.00	$63	$70	$107	$68	$103
Gary	46.00	63	70	107	68	103
Birmingham	41.88	63	70	107	68	103
Geneva	46.00	61	70	107	68	103

Source: Iron Age: Steel prices, March 1950.

Since the adoption of the minority report by its signers, I have had occasion to review an additional statement contained in the chairman's release of March 15, which was received after our meeting in regard to the report. This statement has been included in the majority report as a preface to its recommendations. I have not discussed this section with other members of the minority, nor has it been taken into account in that report. I therefore wish to comment on two paragraphs contained therein:

One of the witnesses before the committee, Mr. W. H. Colvin, Jr., president of the Crucible Steel Co., in an additional statement submitted after the hearings and appearing at page 556 of the printed hearings, made this important declaration:

"Some force somewhere is driving the [steel] industry toward elimination and concentration. If conditions exist and persist which make survival for many units impossible, no law you can pass can prevent elimination and, therefore, concentration."

I have read the additional statement submitted by Mr. Colvin and find that the quotation given in the report has a somewhat different meaning when standing alone than in its context. Accordingly, I wish to call attention to the whole paragraph in which this statement is found in the printed record (p. 556):

> The point about which I wanted to write you, and which is illustrated above, is to state that it seems to me that your committee should be much more concerned about the nature of conditions in this country and in this industry which could bring about such a threatening state of affairs. I think that a healthy steel industry is essential to a healthy national economy and such a strong indication that the industry is in fact anything but healthy should concern you gravely. You should be entitled to know if this is attributable to inefficient, weak, and indifferent management; whether it is a victim of the power of a labor monopoly; if it is being subjected to laws, regulations, or such political interference as eventually to reduce it to the chattel state of the railroads today; if it is competitive to the point of madness and self-destruction without regard to the future, or are there other factors and what the trends portend. What is the matter? The industry's future is being sold for peanuts. Some force somewhere is driving the industry toward elimination and concentration. If conditions exist, and persist, which make survival for many units impossible, no law you pass can prevent elimination and, therefore, concentration.

That the meaning of a sentence of Mr. Colvin's statement, out of context, does not adequately reflect his views is further attested by an item appearing in the Washington Post of March 14, as follows:

> William H. Colvin, president of Crucible Steel Co., charged that the Joint Economic Committee, headed by Senator Joseph O'Mahoney, conducted a biased inquiry into the industry's wage-price set-up.
>
> "The committee was not seeking information in those hearings," Colvin said. "It was seeking, most of its members at least, confirmation for their preconceived notions."

This is additional evidence of misuse of selected quotations to support the position of the majority in connection with these hearings.

ARTHUR V. WATKINS.

COMMENT BY THE CHAIRMAN ON THE MINORITY VIEWS

The minority report appearing above was never submitted to the committee for consideration, so that no opportunity has been presented to the majority members to review the statements therein contained. Rather than delay the publication of the majority and minority reports, the chairman ventures to submit the following comment:

The chairman notes with satisfaction the statement in the minority report that:

> We are prepared to join with the majority in recommending further study but we feel very strongly that that study should be directed toward the question whether competition is effective in the steel industry and if it is not, how it can be made more effective (p. 36).

The reestablishment of competition on a firm basis is one of the most important purposes which can be served by public policy. The willingness of the minority to join with the majority of the committee in promoting such a study may make it possible, after more than a generation, to develop a legislative remedy to halt the progress of concentration, not only in the steel industry but in other industries as well. The majority members of the committee thought they had made it clear in their report that in their opinion the evidence already adduced conclusively indicates that competition is not now effective in the steel industry. If additional evidence is desired then, of course, immediate steps should be taken to provide an additional hearing.

A reading of the minority report leads to the conclusion that it was written without consideration of the results of many previous public studies of the steel industry. The familiar pattern in monopolistic industry of charging all that the traffic will bear was never more politely stated than in the second paragraph of the minority report in the following sentence:

> The fact that companies make larger profits in times of abnormal demand does not seem to us subject to criticism, and perhaps is even necessary to stimulate the construction of additional facilities, as well as to keep in operation needed marginal or high-cost facilities to supply peak demands (p. 34).

This statement presents a striking contrast to the warning which was uttered by Senator Edward Martin of Pennsylvania, chairman of a subcommittee of the Senate Small Business Committee, in the report on the hearings on the distribution of steel products in the summer of 1947. There was an abnormal demand for iron and steel at that time. It had so far outrun the supply that the oppressive effects of the operations, which were popularly known as the "black market" but which the defenders of the steel industry were calling the "gray market," led the subcommittee to state:

> The steel industry has been repeatedly warned that it must put its house in order, or face inevitable regimentation.[1]

[1] U. S. Congress, Senate Special Committee to Study Problems of American Small Business, *Changes in Distribution of Steel 1940-47*, special report, February 10, 1949 (81st Cong. 1st sess., S. Rept. No. 44), p. 2.

The problem of monopolistic practices and of price policy in the steel industry has been before Government agencies in one way or another since the United States Steel Corp. was first established at the beginning of the century by the merger of 10 steel corporations—6 of which at least had been competitors—under a program which resulted in the payment to the sellers of the merged properties of the full value of their plants in cash and in bonds, and at the same time in the issuance of common stock, the value of which was not to be found in any plant or property, but which was to be made from prospective future earnings the promoters confidently believed would result from the elimination of competition. Their hopes were not disappointed, and the promoters who had distributed to themselves a sufficient amount of common stock to retain control of the new industrial giant, lost no money from the transaction.

As long ago as April 20, 1921, the Federal Trade Commission issued its historic complaint against United States Steel in the famous "Pittsburgh Plus" case. Later, the Commission, in its findings of fact, set forth in detail how the prices were collusively fixed in the steel industry from 1873 down to the time that the case was instituted in 1921. It was this case, well publicized at the time, which developed the existence of the pools, the trade meetings, and later on the Gary dinners, by which prices were fixed and competition eliminated.

The Commission's order forbidding the defendant companies from carrying on the alleged collusive practices was entered in 1924. Fourteen years later United States Steel challenged the validity of the Commission's order in this famous "Pittsburgh Plus" case, and the issue was not finally settled until October 1948, when in the appellate courts the Commission's order was fully and finally sustained. Thus a proceeding which began in 1921 terminated only after the passage of 27 years, 2 years more than a quarter of a century.

While this case was going through its various ramifications in the courts, depression descended upon the Nation and the NRA experiment was initiated in the hope of promoting industrial recovery. On March 20, 1934, the Federal Trade Commission in a letter to the United States Senate, in response to Senate Resolution No. 166 (S. Doc. 159, 73d Cong., 2d sess.), analyzed the practice of the steel industry under the NRA Code with reference to price fixing. Within a few months the special National Recovery Review Board, headed by Clarence Darrow, having heard complaints by small steel mill operators, reported to the President of the United States, on May 4, 1934, that these small enterprises were being forbidden to make price concessions and were penalized when they did by the larger units of the industry.

Complaints continued to pour in of oppressive practices by the larger units, and on November 20, 1935, the President of the United States again wrote to the Federal Trade Commission, submitting the allegations that had been made to him. Another investigation was initiated and on June 10, 1936, the Federal Trade Commission reported to the President its conclusion that price competition in the steel industry had been completely frustrated. Identical bids by supposed competitors impeded the progress of public works so necessary to be speedily and economically built in the Nation's effort to recover from the depression, and the Secretary of the Interior was quoted by the Federal Trade Commission as saying:

> The persistent submission by manufacturers and vendors of identical proposals in response to invitations has made it practically impossible for the Government to comply with section 3709, Revised Statutes, which provides that awards must be made on the basis of competitive bids.

This situation in turn provoked a study by the Department of Justice. Homer Cummings, the then Attorney General, reported to the President on April 26, 1937, that the question to be settled was much broader than merely identical bidding in the steel industry, and that a study should be undertaken of all the antitrust laws—

> as to their adequacy, their enforcement, and the desirability of amendment, extension, and clarification.

Then followed the establishment of the Temporary National Economic Committee, of which I was the chairman. This committee was set up for the express purpose of studying the facts of economic concentration with the purpose of making recommendations for the stabilization and maintenance of a competitive economy within the capitalistic system. There again the story was told of price manipulation and monopolistic practices, and again the warning was uttered that unless competition were reestablished and monopolistic practices effectively prohibited, the inevitable result would be Government control.

Finally, as has been pointed out in the majority report (pp. 24–25), there is now pending before the Federal Trade Commission another proceeding alleging price fixing by the steel industry. A public record has been made showing how the American Iron and Steel Institute, acting for the industry, was the agent in the publication of the means whereby prices were fixed and competition eliminated. In the light of the evidence in this hearing and the willingness of the defendants to accept an order requiring them to abandon the use of the means by which the Federal Trade Commission charged that collusive price agreements were made effective, the chairman finds it difficult to understand why the minority members are so ready to attribute to mere innocent coincidence among "competitors," the practically uniform action of the entire steel industry on December 16, 1949, in raising prices for domestic consumers, while lowering prices for export.

I confess I find no encouragement in the effort to maintain a competitive system in the minority report which offers cold comfort to the friends of competition and the foes of uniform price increases in this expression of opinion by the minority.

> We are inclined to believe that a reduction of steel demand would very rapidly bring about greater competitive pressures which would be reflected in reduced prices (p. 35).

One would almost think that the minority was awaiting a new depression as the only hope of reduced prices. Anyone familiar with the tactics of the spokesmen of the steel industry through the years finds the same familiar charges in the minority report. Anything that is recommended to restore and sustain competition is called a move toward Government control, or socialism.

The danger of socialism and of Government control is not to be found in any of the recommendations of the majority of this committee, but is to be found rather in the long record of half a century in the steel industry and the complacency with which this record is sometimes received. Private controls, private price fixing, private domination of the most basic industry in the United States—these constitute the primary source of danger to the capitalistic system, for they subject the public interest to the private judgment of the managers who direct the supply, control the flow, and fix the price of a commodity needed by all business and all industry.

Both reports now submitted to the public—the majority report with its plain statement of facts and its mild recommendations, and the minority report with its defensive analysis of the evidence, its charges of preconceived conclusions and "slanted" interpretation—recommend a further study of competition in the steel industry. On this recommendation at least there is unanimity.

The chairman therefore is prepared to join in the introduction of an appropriate resolution to equip this committee with the power of subpena so that it may carry on an effective study of steel. If the record which lies before the country in the repeated investigations of the past and in the long delay of final adjudication of cases brought under punitive statutes like the Sherman Act and the Clayton Act is not sufficient to prove that concentration of economic power continues in the United States, then by all means let us have another study. It may indeed result in effective action.

The Temporary National Economic Committee recommended a national charter system as the proper remedy for the prevention of monopoly. Such a recommendation was once made by a former President of the United States who became Chief Justice. It has been recommended by many other distinguished public servants. If enacted, it could effectively halt the processes of economic concentration; it could open the door to an expanding economy which would be in reality an economy of free enterprise, free from arbitrary monopolistic controls as well as from arbitrary Government controls; it could eliminate the abuses of the organized capitalistic system; it could effectively remove all threat of socialism and communism.

JOSEPH C. O'MAHONEY, *Chairman.*

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